FINANCIAL TIMES

World Business Newspaper http://www.FT.com WEDNESDAY NOVEMBER 25 1998

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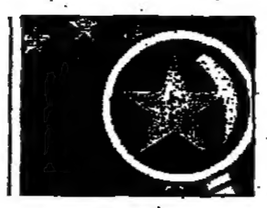

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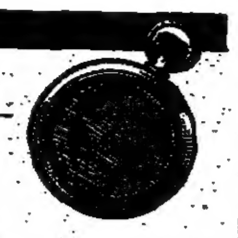

WORLD NEWS

Russians mourn murdered liberal Starovoitova

Three former prime ministers and thousands of Russian citizens flocked to the Alexander Nevsky monastery in St Petersburg to pay their last respects to assassinated liberal parliamentarian Galina Starovoitova. President Boris Yeltsin remained in hospital with pneumonia. **Europe, Page 2**

French argue over constitution
Divisions on European union among the right and left in France are being reopened by a parliamentary debate to alter the country's constitution to accommodate the 1997 Amsterdam Treaty's provisions on the free movement of people.
Europe, Page 3

Blow to Indonesian bankruptcy law
Indonesia's Supreme Court rejected its first bankruptcy appeal this year, dealing another blow to a battered new bankruptcy law designed to prove to investors that Indonesian borrowers could be held accountable.
Asia-Pacific, Page 6

Islamabad electricity negotiations
Indian officials are due to open talks in Islamabad on buying electricity from Pakistan – a move being encouraged by foreign donor countries as a step towards improving ties between the two. **Asia-Pacific, Page 6**

UAE spends $2bn on missiles
The United Arab Emirates continued a weapons buying spree by ordering missiles worth more than $2bn to equip Mirage jets it is buying from Dassault of France. **Trade, Page 9**

India to reform drug patent laws
India's pharmaceutical industry welcomed government plans to reform India's patent laws, saying the move would speed up integration with the industry worldwide. **Trade, Page 9**

US consumer confidence returns
US consumer confidence rebounded sharply as the economy defied expectations of a slowdown and the stock market surged back to new records.
The Americas, Page 7

Expats leaving China
Downsizing has started to take a toll on expatriate executives in China, as foreign companies respond to cost pressures by sending expensive overseas staff home. **Page 16**

Aids virus on the increase
The UN says 5.8m people worldwide have been infected with the Aids virus since last November, bringing the total to 33.4m – up 10 per cent from a year earlier.
International, Page 8

Touch-tone trading in Australia
Australia has gained its first automated telephone broking service, one of few enabling direct share trading via a touch-tone telephone. **Asia-Pacific, Page 6**

Iraq to replace 18 envoys
Iraq's President Saddam Hussein has ordered the replacement of 18 Iraqi ambassadors, including the country's envoy to the UN.

BUSINESS NEWS

Deutsche Bank woos regulators on Bankers Trust bid

Deutsche Bank, Germany's largest bank, has started courting US regulators and leaders of Jewish community groups to smooth the way for approval of its proposed $9.7bn acquisition of Bankers Trust, America's eighth largest bank. **Companies and Markets, Page 17; Deutsche may need to raise DM6bn, Page 19**

Canal Plus, the French pay TV group, is set to sign an agreement to sell a 10 per cent stake in Telepiu, the Italian pay TV group, to RAI, the Italian state broadcasting network. **European companies, Page 20**

Cable and Wireless, the UK's second largest communications group, has attacked the proposed alliance between British Telecommunications and AT&T of the US as it became clear that the European Commission was set to open a full investigation into the tie-up. **Companies and Markets, Page 17**

Global Finance, the Greek venture capital fund manager, has launched a closed-end fund to invest in medium-sized companies in eastern Europe and the former Soviet Union. **International companies, Page 19**

More than 2.3m investors have booked shares in the FFr60bn ($10.5bn) secondary offering of France Telecom, prompting the government to increase the offering by 15m shares. **European companies, Page 20**

EMI, the music group, said poor trading conditions and a weak release schedule had triggered a 10.7 per cent decline in interim profits to £68.6m ($115.2m). **UK companies, Page 23**

International Paper, the largest US paper manufacturer, is buying Union Camp, one of its competitors, in a $6.6bn agreed deal. **Companies and Markets, Page 17; Canadian gloom, Page 28**

Asia Pacific Resources International, the Singapore-based pulp and paper group, may seek to renegotiate the terms of a share swap with Finland's UPM-Kymmene or make a rights issue to avert a delay to their joint venture. **Asia-Pacific companies, Page 18**

A group of Brazilian and Italian companies submitted the only bid for a project to construct a controversial extension to the Rio de Janeiro underground system, expected to cost more than $800m. **Americas, Page 22**

Toyo Trust, the Japanese bank, is to withdraw from overseas lending by March 2001 as part of a broader restructuring. **Asia-Pacific companies, Page 18**

World Equity Markets
The latest trends and data from more than 50 national markets at a glance
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Japan warns of $82.6bn tax shortfall

Lower revenues and higher spending could push budget deficit to 10% of GDP

By Gillian Tett in Tokyo

Japan could face a Y10,000bn ($82.6bn) shortfall in central and local government taxes this year due to the economic slowdown, government officials have warned.

This projected shortfall threatens to weaken still further the country's fiscal position, since Japan's ruling Liberal Democratic Party is also planning to raise spending with a recently announced Y24,000bn stimulus package.

Some government officials fear the combination of higher public spending and lower tax revenues could push Japan's total budget deficit up to 10 per cent of gross domestic product next year, higher than any other country in the Group of Seven leading industrialised nations. "The fiscal situation is very serious," one senior official said.

The projected tax shortfall has risen largely because the recent recession has damaged corporate profits and pushed down the level of corporate tax receipts, officials say.

When the central government initially drew up the fiscal 1998 budget last year, it expected to receive Y58,500bn of tax revenues, compared with Y54,000bn in fiscal 1997. In June it reduced the projection for fiscal 1998 to Y57,000bn following the implementation of Y2,000bn in income tax cuts.

However, internal calculations at the Ministry of Finance suggest that revenues will now be under Y51,000bn because of a recent sharp decline in corporate tax revenues. Tax revenues last fell below Y51,000bn in fiscal 1987. Meanwhile, local government tax revenues are projected to be Y35,000bn, almost Y4,000bn less than originally expected.

The government insists that the situation should improve next year if the economy picks up. However, the LDP has pledged to introduce Y7,000bn more income, corporate and residential tax cuts for 1999. Some officials fear that would lead to a fall in total tax revenues for fiscal 1999 to well below Y50,000bn.

These calculations have triggered deep unease among some government officials, not least because Moody's, the US credit rating agency, has recently downgraded Japan's sovereign debt due to its rising budget deficit.

Analysts warn that the shortfall could create new pressures in the Japanese government bond (JGB) market, as it will force the government to keep issuing more bonds. William Campbell, analyst at J.P. Morgan said: "There is a limit to how many more bonds the market can swallow."

In recent days, ministry officials have indicated that they will raise their monthly sales of JGBs to private investors from the current Y1,400bn to Y2,000bn next January.

The size of this increase has surprised many investors. They had initially assumed that the ministry's Trust Fund Bureau, rather than private investors, would buy most of the new bonds. However, the Trust Fund Bureau is becoming reluctant to buy bonds because of a looming cash squeeze. Bond prices have fallen as a result. The yield on the 10-year benchmark bond closed at 0.925 per cent yesterday, 0.025 percentage points up.

Height of jubilation: Palestinian crowds celebrating the opening of Gaza International airport at Dahanieh, marked by visiting aircraft from Egypt, Jordan, Morocco, the EU, Austria and Spain. Gaza's red carpet, Page 8 AP

EU-WIDE TRADE DISPUTE FEARED AFTER ROME'S EXTRADITION REFUSAL

Turkey warned against boycott of Italian goods

By Neil Buckley in Brussels and Ralph Atkins in Bonn

The European Union yesterday warned Turkey it could face retaliation if it boycotted Italian goods in protest at Rome's refusal to extradite Abdullah Ocalan, the Kurdish guerrilla leader.

As Jacques Santer, European Commission president, called for "solidarity" with Italy, the clash between Ankara and Rome threatened to develop into a trade dispute involving all 15 EU members.

It also threatened to open old wounds between the EU and Turkey which has been pressing for equal treatment alongside 11 other candidates for membership of the Union.

Mr Santer's comments marked the first EU intervention in the escalating row – other than a short weekend statement from Austria, holder of the Union's rotating presidency – in support of Italy.

Seated beside Massimo D'Alema, on his first visit to Brussels as Italian prime minister, Mr Santer said any official boycott of Italian goods would breach Turkey's customs and association agreements with the EU.

His warning came after Turkey said it would cease cable broadcasts of two Italian state-run television channels, and Turk Telecom, the state-owned utility, would halt business with Italian companies. Turkey's defence minister was earlier quoted as saying the country would exclude Italian companies from defence tenders.

"If a boycott [of goods] were officially decided... or if there was a boycott by public companies, it would be necessary to call for consultations [with Turkey] immediately," Mr Santer said. "If such consultations didn't achieve results, the [EU] could decide on retaliatory measures."

Rome's court of appeal rejected Turkey's request for extradition of Mr Ocalan, the Kurdish Workers' Party (PKK) leader, last Friday. Ankara accuses Mr Ocalan of terrorism.

Lamberto Dini, Italy's foreign minister, indicated this week that Mr Ocalan had been seized because of the arrest warrant issued by Germany.

The Turkish permanent delegation to the EU in Brussels denied there was an "official" boycott. Consumer associations, trade groups, unions, politicians and academics had made statements criticising the Italian authorities but not the Italian people.

Unfinished business, Page 2

Sweden expected to boost central bank independence

By Greg McIvor in Stockholm

Sweden's parliament is today expected to approve a bill strengthening the independence of the central bank despite opposition from eurosceptics and leftist parties dismayed at the loss of political control over monetary policy.

The bill, if passed, would alter the Riksbank's constitutional status and, in effect, hand sole responsibility for monetary policy to a committee of senior bank officials.

Debate over the bill has driven a wedge between the minority Social Democratic party government and its Left party and Green allies, which oppose any reduction in political scrutiny over Riksbank affairs.

It has also stirred dissent among the SDP's Eurosceptic faction, which accuses the government of preparing Sweden for membership of the European single currency by adopting euro-zone guidelines for central bank independence.

That charge is rejected by ministers. The government has remained studiously non-committal on joining the euro-zone, wary of substantial popular opposition. Unlike the UK and Denmark, however, Sweden has no opt-out clause allowing it to stay out of the euro permanently.

The Left and Green parties, which oppose deeper European integration, are expected to vote against the government. However, the bill is likely to pass with support from four opposition parties.

A senior Left party official complained that under the new arrangement, the Riksbank would be controlled by unelected officials. This represented "a gigantic transfer of power from parliament to a small power elite".

The Left said less political influence over monetary policy could result in the Riksbank pursuing more aggressive anti-inflationary targets, which would jeopardise employment.

The dispute coincided with the Riksbank's announcement yesterday of a 0.25 per cent cut in its key repo interest rate. It was the second such cut this month and reflects weaker than expected inflationary pressures.

Under the bill, the Riksbank would have a new management structure, while the powers of the central bank governorwould be augmented.

The existing eight-member governing board, comprised mainly of laymen elected by parliament, and responsible for setting Sweden's monetary policy framework, would be abolished.

A new board, also appointed by parliament, would have no influence over monetary policy. Its only function would be to appoint a directorate of senior Riksbank officials to exercise monetary policy independently. The governor and other directorate members could be removed from office only in exceptional circumstances.

Kjell-Olof Feldt, chairman of the Riksbank's board, said this was at odds with Swedish traditions of transparency in public bodies. "It will be difficult to make [the Riksbank] accountable," said Mr Feldt, who is to lose his job in the reshuffle.

WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	9329.22	(-45.03)
NASDAQ Composite	1951.77	(+4.35)
Europe and Far East		
CAC40	3830.39	(-6.43)
DAX	4958.82	(-60.30)
FTSE 100	5790.3	(-50.1)
Nikkei	15,194.04	(+394.70)
US Lunchtime RATES		
Federal Funds	4.5625%	
3-mth Treas Bills: Yld	4.57%	
Long Bond	100¾	
Yield	5.22%	
OTHER RATES		
UK: 3-mo Interbank	[illegible]	([illegible])
UK: 10 yr Gilt	132.38	(132.38)
France: 10 yr OAT	135.09	(135.09)
Germany: 10 yr Bund	105.83	([illegible])
Japan: 10 yr JGB	107.68	(107.68)
NORTH SEA OIL (Argus)		
Brent Dated	$10.57	(10.535)

GOLD		
New York Comex		
	$296.4	(297.1)
London		
	$296.15	(295.75)
EXCHANGE RATES		
Dollar		
New York: Lunchtime		
£	1.6577	
DM	1.70795	
FFr	5.7271	
SFr	1.4100	
Y	120.995	
London:		
£	1.6615	(1.6628)
DM	1.7045	(1.7044)
FFr	5.7158	(5.716)
SFr	1.4067	(1.408)
Y	120.65	(120.99)
Tokyo Close		Y 121.045
Sterling		
DM	2.832	(2.8166)

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POLITICIAN'S FUNERAL MOURNERS HEAR PLEA FOR UNITY

Call for Russians to defend democracy

By John Thornhill in Moscow

Three former prime ministers and thousands of ordinary citizens flocked to the Alexander Nevsky monastery in St Petersburg yesterday to pay their last respects to Galina Starovoitova, who was gunned down in the entrance to her home late on Friday night.

In an emotionally charged memorial service, Mrs Starovoitova's family, friends, and political allies said the country's democrats had reached a "moment of truth" and must unite to defend their fragile gains.

"They killed her out of fear," said Mrs Starovoitova's son, Platon. "The killers and those who gave the orders might escape concrete investigations. But I believe they will not escape the anger of the people. Sooner or later, the people will crush them underfoot."

Victor Chernomyrdin, the former prime minister, who attended the service alongside two other former premiers, Sergei Kiriyenko, and Yegor Gaidar, said: "These shots were fired at all of us."

The murder of Mrs Starovoitova, one of Russia's best-known female politicians and a dogged human rights campaigner, has caused much soul-searching among the fragmented democratic movement and prompted calls for a renewed effort for unity.

Lev Ponomaryov, who was co-chairman of the Democratic Russia movement alongside Mrs Starovoitova, urged fellow democrats to forget their personal differences and forge a united block to contest next year's parliamentary elections.

Anatoly Chubais, the former deputy prime minister who masterminded Russia's privatisation programme, later said an announcement on the formation of a centre-right bloc was expected by the end of the week.

In an interview with the Itar-Tass newsagency, Mr Ponomaryov said the democrats should conduct opinion polls to determine who were their most popular leaders and rally around to support them at the next elections.

"The death of Galina Starovoitova should not become a reason for division in society – the best memorial to her would be the uniting of all democratic forces," said Yuri Yarov, an aide to President Boris Yeltsin.

The police have not detained anyone in connection with the murder but Russian newspapers have speculated about possible reasons for the attack. Many have concluded that a political motive was involved, either to stop Mrs Starovoitova's democratic movement from making gains in forthcoming local elections in St Petersburg or to destabilise national politics.

Several commentators have noted that the killers were well informed about Mrs Starovoitova's travel plans and might even have bugged her telephone calls. Some have even speculated that rogue elements of the FSB, the internal security service, might have been involved. But Oleg Sysuyev, deputy head of the presidential administration, urged mourners not to let their suspicions blind them to Mrs Starovoitova's personal example.

Adviser sees weakened Yeltsin

A top foreign policy adviser to Chancellor Gerhard Schröder, of Germany said yesterday he believed Russia's ailing President Boris Yeltsin was only able to carry out his duties in a "highly limited" fashion.

Günter Verheugen, deputy foreign minister, said that during a visit to Moscow with Mr Schröder last week, he got the feeling Russian politics were dominated by the question of when the Yeltsin era would end.

Mr Verheugen said he did not want to speculate on who or what would follow Mr Yeltsin, but said it seemed clear that Yevgeny Primakov, the premier, was running the government.

Mr Yeltsin has rejected allegations by opponents that he is unable to govern.

The Kremlin announced on Monday that Mr Yeltsin, 67, had contracted pneumonia for the second time in less than two years.

Tears for a politician: a mourner at Galina Starovoitova's funeral in St Petersburg yesterday Reuters

Foreigners may sign Russian debt deal soon

By Arkady Ostrovsky in London and John Thornhill in Moscow

Foreign banks could sign a restructuring deal on $16bn of frozen Russian domestic debt, known as GKOs, by the end of the month, sources close to the negotiations said yesterday.

Under the terms of the proposal foreign banks, which have invested about $15bn in GKOs, will only be able to repatriate about $550m of their holdings.

The $40bn GKO market was frozen on August 17 as part of an emergency package of measures introduced by the Russian government.

Russia will provide $50m a month and will conduct dollar auctions from February to December 1999. Those who decide not to take part in these auctions could put their money into special "transit" accounts where their rouble funds would have to "mature" for one year before other – still unspecified – mechanisms of repatriation were made available. Alternatively, foreign banks could use their money to buy more GKOs.

Foreign bankers called the terms of the deal "confiscatory" but said it was better than nothing. "Everyone knows Russia can confiscate investors' money, the question was whether they would chose to do so. Now, it looks like they will," a banker close to negotiations said.

Retreating from an earlier offer to pay investors 10 per cent in cash up front, the Russian government would now pay 3.3 per cent cash straightaway and another two instalments of 3.3 per cent each in March and June.

Mikhail Zadornov, finance minister, vowed Russia would still honour all its post-1992 external debt, including $8.1bn of eurobond payments and repayment of loans from the International Monetary Fund and the World Bank.

But he said Russia had already entered into talks with the Paris Club and the London Club to reschedule the $9bn of repayments of Soviet-era debt which fall due next year.

Enron says Germans block power market

By Andrew Taylor in London and Frederick Stüdemann in Bonn

Enron, the big US energy group, has complained to German competition authorities that it is being prevented from selling electricity in the country's newly liberalised power market.

The complaint emphasises the problems faced by electricity suppliers seeking to take advantage of a European Union directive requiring member countries from February to open to competition at least 25 per cent of national electricity supply markets.

Enron has asked the federal Cartel Office to investigate possible violations of national competition and energy laws by Elektromark, which supplies power in North Rhine Westphalia.

The US group says the German company is refusing it access to the local power distribution network which is owned by Elektromark.

As a result Enron says it has been unable to meet its contract to supply power to the municipal power company of Lüdenscheid, a town in the Sauerland region just south of the Ruhr industrial area. Lüdenscheid is currently supplied by Elektromark.

Elektromark said last night it was unable to allow Enron distribution rights because of technical problems in the Lüdenscheid area where there was a threat of overloading transformers.

Enron said it had commissioned an independent study by Kema Consulting, which found that while transmission constraints might exist, these had not previously blocked supply.

The US group claimed Elektromark had sought to negotiate a "parallel electricity supply contract with Lüdenscheid" while first delaying its response and then refusing Enron's request for transmission access.

Mark Frevert, chief executive of Enron Europe, said anti-competitive behaviour, including denial of transmission access, "is denying German energy customers the freedom to choose suppliers at competitive prices".

"As a result," said Mr Frevert, "German industry is being competitively disadvantaged by higher energy costs and fewer options for managing their energy needs than companies in other European countries."

Elektromark said it had written to the federal cartel office to make clear its general commitment to "discrimination-free" transmission. It said: "There are many cases where we can provide transmission... It is just in the Enron case where we really have a technical problem." It said a commission from the Technical University of Aachen had found Elektromark would no longer fulfil its legal duties of guaranteeing stable provision of electricity if Enron was granted transmission access. Elektromark is owned by several local councils in the western state of North Rhine Westphalia.

Turkey faced with a sense of unfinished business

A reforming prime minister looks almost certain to be removed in a parliamentary censure motion today, writes **Leyla Boulton**

In less than a year and a half in office, Turkey's prime minister has made deep inroads into his country's chronic inflation problem and introduced much-needed economic reforms, including a new tax law and the sale of inefficient state enterprises. Mesut Yilmaz has also led the most comprehensive crackdown ever on the country's network of organised crime, arresting more mafia suspects than any of his predecessors.

All of this has helped earn him considerable public support and fed his hopes of re-election on a crime-busting ticket next April.

Yet today he is likely to be slung out of office by a censure motion in parliament accusing him of corruption.

"He's leaving with everything uncompleted," said Elif Tekeli, a 24-year old student in the Turkish capital said yesterday.

The fragile coalition led by the German-educated premier's right-of-centre Motherland party will almost certainly fall today. Members of parliament are expected to vote overwhelmingly in favour of the censure motion, sponsored by Deniz Baykal, head of a small left-of-centre party on which the government relied for its survival. The motion is backed by the Islamist Fazilet party which stands to win the biggest share of the votes in elections scheduled for April 18.

Mr Baykal called for the government to resign earlier this month minutes after Korkmaz Yigit, a property developer, accused the prime minister of improper involvement in the $600m privatisation of Turk Ticaret Bank. The allegations are not specific and have not been investigated in any form. But the implication is that Mr Yilmaz personally encouraged Mr Yigit to acquire the bank and other assets and that, because Mr Yigit is accused of laundering money for a suspected mafia godfather, the prime minister is linked to organised crime.

Mr Yilmaz dismisses the allegations as "all lies" and is suing Mr Yigit and the media that published the allegations. Meanwhile, the sale of the bank has been frozen and Mr Yigit's businesses have been ruined.

That such vague allegations that have not been investigated should trigger a government crisis says much about the country's unstable political environment. And it further damages the already low regard in which its politicians are held.

"I am angry with all of them," raged Hanife Eren, a 75-year-old grandmother. "I wish God would give them some brains. They all know that nobody is going to win an election outright so why are they wasting our money by organising early elections."

Yet even an exasperated Ms Eren sees Mr Yilmaz, who has the solemn air of a western banker, as "a little better than most".

Many believe that he is guilty of poor judgment rather than dishonesty. "Yilmaz is not a thief. He comes from a rich family so he does not need to steal," says one well connected Istanbul socialite. "But everybody makes mistakes."

His fatal error, as Sedat Ergin, a commentator for Hurriyet, Turkey's biggest circulation daily newspaper put it, was to allow "the impression that government was surrounded by wheeler-dealers and corrupt persons".

A western diplomat concurred with the view that the prime minister should not have become so involved in a privatisation deal, even with the best of motives (Mr Yilmaz's explanation indicates that he was trying to secure the highest possible price for a state asset). Privatisation in Turkey has always attracted allegations of corruption because of a perception that politicians and officials get kickbacks when deals are awarded.

"He was a little unwise in behaving like a typical Turkish father figure to whom everybody comes and asks for help," said the diplomat. "As the leader in Turkey, you feel great but you can get carried away and you are not used to very stringent western rules guiding government behaviour in cases like that."

As it happens Mr Yilmaz has always adopted a hands-off approach to the nomination of managers of state-owned enterprises, which are usually treated as a rich source of patronage by Turkish politicians.

Mr Yilmaz started his political career in 1983 when he was elected member of parliament for the Black Sea town of Rize, to which his *Laz* ancestors emigrated from the Caucasus in the Russian empire.

Outside Turkey he is likely to be remembered for some emotional outbursts which at times of crisis have reflected the mood of his people. He once accused Germany of seeking Nazi-style *lebensraum* in blocking Turkey's application to join the European Union. More recently, he warned Italy it would have "blood on its hands" if it failed to extradite Abdullah Ocalan, leader of the Kurdish PKK guerrilla group.

This very combination of coolness and emotion could go a long way to ensuring that, apart from the traditional longevity of Turkish politicians, this would not be his last time in office.

Worried EU cartel busters face up to the computer age

In the first of a fortnightly series on how the Commission polices the single market, **Emma Tucker** looks at how the computer age has increased Brussels' difficulties in cracking open cartels

Inside the market

When in June 1995 EU investigators raided the offices of ABB, the Swiss-Swedish engineering giant, on the suspicion it was running a cartel, they found a set of tables with a note attached. It read: "To be destroyed – completely ... EU case looks bad – be careful for Christ's sake."

The advice had clearly not been heeded. The note, along with the tables showing an unlawful market-sharing system, joined the pile of evidence later used by the Commission to convict ABB, and nine other companies, of running a price-rigging cartel for pre-insulated pipes. They were hit with fines totalling Ecu92m ($107m).

In this case the European Commission, the policeman of the EU's single market, had the perfect break. Its inspectors were able to pocket incriminating documents and for ABB and the other companies, the game was largely up.

But nowadays dawn raids are less likely to yield such rich pickings. To the immense concern of the Brussels investigative team, companies are wising up, both to Commission tactics and to the new communications technologies now available for hiding messages sent and agreements made. They are getting better at *covering their tracks*.

The implications are serious. "As European economies become increasingly integrated, cartels pose a much greater danger to the single market. But at the same time they are getting harder to catch," says an anti-trust official.

Most alarming to the Commission is the way companies are using electronic mail.

This makes communication swifter and easier and requires considerable computer expertise to detect. Executives do not have to *meet to construct* agreements (memos written on hotel notepaper used to crop up frequently in investigations) and correspondence can be apparently deleted from easily accessible files at the press of a button.

Now Brussels is to launch a counter-offensive. It is to reorganise its cartel investigators into a dedicated unit, equipped with computer experts who will know what to look for (and how) when swooping on the premises of a suspect company.

It will be their job to outwit companies, some of which have gone as far as running mock dawn raids with their lawyers – rehearsing leaving Commission inspectors hanging around in reception just long enough to wipe computer screens clean.

Such tactics are typical of what Brussels sees as the "laddish" behaviour of companies that think they can circumvent EU antitrust rules. The pre-insulated pipe cartel, of which ABB was the ring leader, continued breaking the law for nine months *after the Commission had* carried away incriminating documents.

"There is a mentality in many industries throughout the EU that price fixing is the way business has always been done here," says a US lawyer.

Many believe this is because, unlike in the US, operating a cartel is not a criminal offence in the EU.

The worst a wayward company can expect is a hefty fine and that is a risk some calculate, worth taking. In the US, by contrast, the threat of a jail sentence *hangs over executives* caught operating a cartel.

Conscious of these limitations, the Commission can only ratchet fines higher – something it has been doing steadily ever since it imposed an Ecu952,000 ($1.1m) fine on a group of quinine producers in 1969.

This year it imposed a record fine of Ecu273m on 15 shipping lines that for years had fixed the prices they charged for *services between North* Europe and the US.

The Ecu70m fine given to ABB was the third largest ever imposed by the Commission *on a single company*. They could go higher still. Under EU rules, companies can be fined up to 10 per cent of their turnover.

As the Commission enters a new era of antitrust enforcement, its inspectors look back longingly to the days when cartel busting was a simpler business.

One remembers spotting a bulge in a Norwegian businessman's trousers and correctly deducing that it was *incriminating correspondence*. But they are proud of their record and hope that, despite new technologies and the limitations on their powers, they can still get their man.

"It's a very subtle cartel that leaves no trace at all," says one seasoned official.

Inside the Market will appear every other Wednesday.

Europe's top cartel busts

SHIPPING	
P&O Nedlloyd	
Maersk	
Sea-Land	
Total	Ecu 273m
CEMENT	
Italcementi	
Lafarge	
Blue Circle	
Total	Ecu 248m
CARTONBOARD	
Total	Ecu 130m
STEEL BEAMS	
Total	Ecu 104m
PRE-INSULATED PIPES	
ABB	
Total	Ecu 92m
POLYPROPYLENE	
ICI	
Montedipe	
Hoechst	
Shell	
TOTAL	Ecu 58m

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Czech banks likely to get capital boost

By Robert Anderson in Prague

The European Bank for Reconstruction and Development and the International Finance Corporation are planning to invest several hundred million dollars to boost the Czech government's banking privatisation programme.

The IFC board has approved a potential $75m equity investment alongside a strategic investor in Ceskoslovenska Obchodni Banka (CSOB), the country's fourth biggest bank. "We thought we would pick the *one that* was ready. We thought it would enhance the attractiveness of the CSOB deal and jump-start the whole process," Vikas *Thapar, IFC special repre*sentative for Europe, said.

After CSOB, the government has pledged to sell its 45 per cent stake in Ceska *Sporitelna, the main retail* bank, and its 49 per cent shareholding in Komercni Banka, the country's biggest bank, by the end of 2000.

The EBRD has already bought an 11.8 per cent stake in Ceska Sporitelna for Kč2.5bn ($83m) in June and is likely to participate in a Kč5.7bn subordinated debt issue to bolster the bank's capital adequacy after its disastrous foray into Russian securities.

The EBRD – which before the Ceska Sporitelna purchase said it had Ecu200m-Ecu300m ($233m-$350m) to spend on the Czech banking sector – is also considering investing in CSOB and Komercni, possibly even before full privatisation. "If additional capital is needed to make sure the capital adequacy is adequate we would certainly consider it," said David Hexter, EBRD deputy vice president.

Yesterday Komercni Banka said it had approved plans to issue up to Kč2bn of subordinated domestic debt to shore up its capital base.

The EBRD and IFC believe their offer of involvement should encourage other foreign bidders. This is because the presence of international institutions will add expertise and spread investor risk.

Attracting bidders is particularly important as the two big Czech banks, Ceska Sporitelna and Komercni, are struggling to make provi*sions for the one fifth* of their loans on which no interest has been paid for one year or more.

The EBRD and IFC are *focusing on* the banks because they believe their long-delayed privatisation will not only strengthen the banking sector before European Union membership and avoid the danger of an Asian-style bad debt spiral, but will also help the restructuring of industry.

State ownership of the banks, inexperience and close ties with industry are blamed for the lax credit policies which have delayed enterprise restructuring. When the severity of the bad loan problem was finally acknowledged this year, it led to a credit squeeze which has deepened the recession.

Sale of Azeri bank ordered

By Carlotta Gall in Baku

The president of Azerbaijan, *Heydar Aliyev, yesterday* ordered the sale of most of the government's remaining 51 per cent share of the country's largest bank, the International Bank *of* Azerbaijan (IBA).

The move appears to be aimed at re-starting the stalled privatisation process and is designed to fulfil International Monetary Fund conditions for disbursement of the next tranche of a loan.

The state will retain a 5 per cent stake in the bank, while a 20 per cent stake is expected to be sold to the European Bank for Reconstruction and Development and the remaining 26 per cent at a cash auction. The other 49 per cent is already in private hands, though until now the IBA has been run essentially as a state bank. Earlier this year the bank received a rating of BB+, one notch below investment grade, from Thomson BankWatch.

The move will placate the IMF, which has made full IBA privatisation the main condition for disbursement of the next tranche of a $219m loan. The IMF hopes the sale will kick-start privatisation, which stalled before the country's biggest companies were sold off.

It is not clear how quickly the privatisation will proceed, though Mr Aliyev has ordered the cabinet to lay out the conditions for foreign investors within a month. Independent auditors will be called in to advise.

ALLIANCE STRATEGY SCHARPING DENIES BONN IS AGAINST NATO DOCTRINE ALLOWING FIRST USE OF NUCLEAR WEAPONS

Germany seeks to allay US Nato fears

By Stephen Fidler in Washington

Rudolf Scharping, Germany's defence minister, sought yesterday to smooth over apparent differences with Washington over Nato policy, saying the new government in Bonn believed nuclear forces played a fundamental role in the alliance's strategy.

Mr Scharping, on his first trip to Washington as minister, has been embarrassed by remarks from Joschka Fischer, the foreign minister and a member of the Green party, that Germany wanted to discuss Nato's policy which allows the first use of nuclear weapons in a conflict. The remarks were contained in an interview with Der Spiegel magazine.

The defence minister yesterday met William Cohen, the US defence secretary. He said afterwards that there was "no intention to take unilateral decisions which have an impact on the security of the alliance. And... there's no intention in my government to question any core element of Nato's strategy, including the factor that nuclear forces play a fundamental political role."

He distinguished between the long-term aim of the government – to see an end to nuclear weapons – and Nato's immediate strategic aims.

Mr Cohen said he had made it clear the US opposed any change in the policy towards No First Use. "We believe that the current doctrine serves to preserve the peace and to enhance deterrents. In particular, the alliance's nuclear forces continue to fulfil an essential role by ensuring uncertainty in the mind of any aggressor about the nature of the allies' response to military aggression," he said.

Mr Scharping said on Monday that German support for No First Use was "on a global level", such as in the United Nations. "What I want to make clear is this idea, on a global level, is in my view a sensible, fruitful political goal." But he went on to add: "The world is as it is, and we need deterrence and the capabilities of deterrence within Nato in the future, too; absolutely clear."

He told a conference, organised by the Centre for Strategic and International Studies, that Germany favoured further enlargement of Nato beyond Poland, the Czech Republic and Hungary which formally join next year, but not until their entry in the organisation had been digested.

He said the German armed forces should be adapted to better fit with Nato's needs. "We need armed forces that are more flexible, highly mobile, sustainable and rapidly deployable ... The overall goal is to improve interoperability within Nato."

Keeping the peace in Kosovo without favouring one side

David Buchan reports from Dragobilje on the problems facing the taskforce which monitors ceasefire and pullback agreements

"Can you please get your people to keep their uniforms and guns away from the main road," says the jeans-clad American to the Albanian village headman as he climbs out of his orange Humvee armoured car.

The American is part of the US Kosovo Diplomatic Observer Mission (USKDOM), which is about to be folded into the bigger international taskforce created to monitor ceasefire and pullback agreements negotiated last month by Richard Holbrooke, the US envoy, with President Slobodan Milosevic of Yugoslavia.

The American, who will not give his name because he is not supposed to talk to the press, is into force separation. His problem on this occasion was a Serb police patrol passing along the road from Malisevo, last summer's "capital" of the Kosovo Liberation Army (KLA) and Orahovac, scene of some of the worst fighting in the eight-month war. The Serbs complained they had spotted KLA down the track to Dragobilje. They warned that if the Americans did not use persuasion get the KLA to pull back, they would do so by other means.

In fact, the KLA do not seem too bothered about Serbs entering Dragobilje, probably because two Serb policemen were recently kidnapped and executed there.

At a muddy crossroads we get a briefing in broad daylight from the information officer of Brigade 122. He tells us to refer to him as "Journalist" because he used to work for Radio Pristina, but now in camouflage gear and KLA insignia he carries ammunition instead of a tape-recorder. "Journalist" claims Brigade 122 is back in control of 90 per cent of its zone, as three carloads of uniformed KLA pass during the next half-hour.

But Humvee patrols or KLA control of the surrounding area are not enough to persuade anyone to go back to Malisevo, where the only permanent residents are Serb police and scavenging dogs.

A few Albanians return by day to pick through the remains of their houses, but say that they would not dream of coming back to rebuild while the police remain.

In theory, the Holbrooke agreement stipulates that the Serbs can only have a police post where it existed pre-war – which it did not in Malisevo. But the man from USKDOM says Malisevo is a "permitted" police post on his list, and a KLA attack 10 days ago has probably reinforced the determination of the Malisevo police to stay.

In trying to arrange local ceasefires and to keep the warring parties separate, there is a risk that international observers will be accused of taking sides, just as United Nations peacekeepers were in the Bosnian war.

William Walker acknowledges the risk. He is the US diplomat appointed to head the planned force of 2,000 unarmed "verifiers", set up under the aegis of the Organisation for Security and Co-operation in Europe (OSCE) to subsume the present diplomatic observer groups and to "verify" the Holbrooke agreements. "Mediation is an inevitable part of what we are doing, but I recognise the danger in it," he said in an interview at his Pristina base.

"The last thing we want to project is taking sides. Milosevic and his government say they don't understand the symmetry of our approach, because they say they are a legitimate government faced with terrorists. But we will stress the need for impartiality."

Two Kosovo Liberation Army (KLA) fighters stand guard at a village near Pristina Reuters

So far, the OSCE has only got 300 observers in Kosovo, with the US, Britain and France the quickest to respond. If it does not get more men on the ground soon, it may not be able to check the violence sufficiently for negotiations being conducted by US mediator Chris Hill to succeed.

Equally, however, if Mr Hill's mediation leads to a settlement, then this could take the OSCE down a slippery slope to international administration of Kosovo as in Bosnia. "We will extend our role to oversee not only elections, but also the agreement itself. If, for instance, we don't find local policing to be what it should be, we will try to change the composition of police forces to make them more ethnically-balanced," says Mr Walker. The OSCE's legal reading of the Holbrooke agreement, renewable after one year at the request of either party, is that they cannot be thrown out of Kosovo against their will.

But there is a vital difference. In Bosnia, the administrators have 35,000 Nato-led troops to back them. In Kosovo they would have none. Over the horizon in Macedonia a French-led "extraction force" is being assembled, ready to cross over and take the OSCE verifiers out of Kosovo if they hit trouble.

This contingency force has annoyed Mr Milosevic who has protested to Mr Walker that use of this force would amount to an "armed invasion" of his country. He told the OSCE chief: "I am your insurance policy." The KLA makes similar assurances. In Dragobilje, "Journalist" says "if need be, we (the KLA) could be a kind of bodyguard" for the OSCE.

Despite the honeyed words the OSCE men on the ground still feel, as one of them put it, like "the meat in a pretty nasty sandwich".

French split reopens on sovereignty

By Robert Graham in Paris

Serious divisions over loss of sovereignty to the European Union among the right and left in France are being reopened by a parliamentary debate to alter the country's constitution to accommodate the 1997 Amsterdam Treaty's provisions on the free movement of persons.

The National Assembly and Senate are being asked to approve the constitutional change as a preliminary to ratifying the treaty. But this alteration involves surrender of sovereignty to Brussels on immigration matters, frontier controls and visa regulations.

The issue is so sensitive that the Socialist-led government of Lionel Jospin, the prime minister, has held back the debate until the last moment – leaving France in the rear of completing the ratification process.

The debate, which began yesterday, will require a vote by each house separately and a joint session in special congress with a clear majority. The passions roused are likely to spill over into European parliamentary elections in June next year. The issue could even complicate the chances of the moderate right fielding a common list of candidates.

Mr Jospin has to cope with the hostility of his Communist allies to the Amsterdam Treaty and the opposition of some leftwing Socialists as well as the Citizens' Movement led by Jean-Pierre Chevènement, the interior minister. Among the opposition, some notable barons in the Gaullist RPR are committed to vote against the change, while the party as a whole is ambivalent. This is in stark contrast with the position of President Chirac, who founded the RPR and is firmly committed to wedding France closer to the EU.

The ratification process is one of the few occasions in the 18 months since Mr Jospin took office that he and Mr Chirac have found the need to make common cause. Both have a vested interest in a smooth and quick ratification against the backdrop of the January launch of the euro, the single currency.

The divisions on Europe were evident during the narrowly won referendum on the Maastricht Treaty in 1992 and resurfaced earlier this year in the debate endorsing the euro. But this will be the final opportunity to challenge the surrender of French sovereignty and the diminishing role of the national parliament.

Mr Jospin can probably talk the Communists into abstaining and can accommodate the hostility of a handful of Socialists and the eight Citizens' Movement deputies. But to head off the dissidents on the right, President Chirac has had to accept the RPR proposal that parliament extend its powers of monitoring EU laws and regulations.

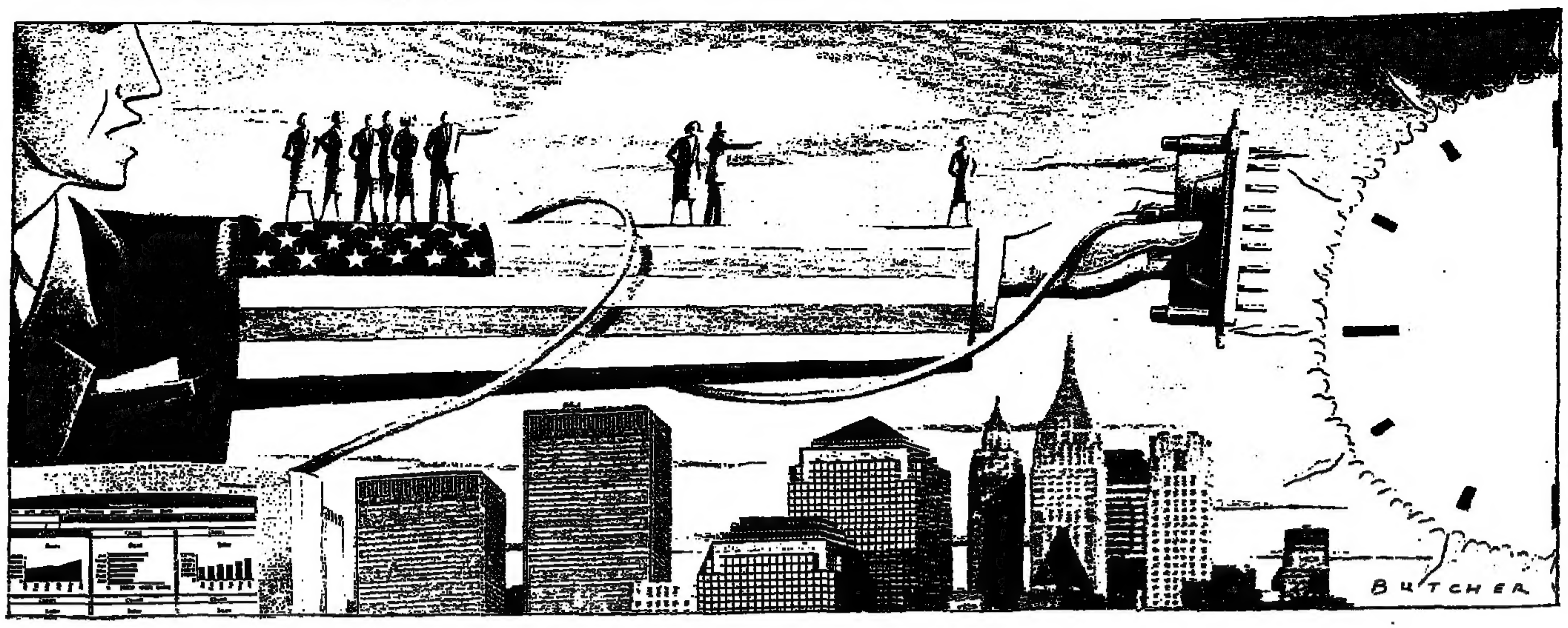
● **Reuters adds from Paris:** France said yesterday it would oppose EU plans to open the freight market to competition the day after rail workers across Europe snarled train traffic and stranded passengers in a strike against the plan. Staff worked normally on Tuesday following the walkout in six countries, with only slight delays recorded in France.

"In the interests of the rail workers ... the French government will not give in to this plan," Claude Gayssot, transport minister, told the National Assembly.

Monday's strikes, which also hit Greece, Luxembourg, Portugal, Spain and Belgium, were called in protest against a proposal by the European Commission to open 25 per cent of the rail freight market to competition over the next 10 years.

YEAR 2000

A FINANCIAL TIMES GUIDE TO THE MILLENNIUM COMPUTER PROBLEM



Big date nerves for computer age

The inability of some computers to recognise the new millennium is costing up to $2,000bn to fix and no one knows quite whether it will work. **Paul Taylor** reports on progress to date on the biggest threat to the electronic age

No other issue related to computer systems, semiconductors and software has caused so much anxiety – or cost so much to fix.

Last month Gartner Group, the US-based information technology consultancy which first drew attention to the issue, estimated the cost of fixing the year 2000 problem at $1,000bn to $2,000bn.

The millennium computer date problem is both a trivial technical issue, and one of the most serious threats faced by companies, governments and other organisations dependent upon information technology.

The year 2000 problem – often referred to as the Y2K issue in the US – has its origins in the 1960s and 1970s when programmers designing chips or writing software abbreviated the date by leaving out the first two digits of the year to save costly memory and storage space.

As a result many computer systems do not recognise 00 as 2000, but as 1900 or an invalid date. Calculations involving dates beyond midnight on December 31 1999 will produce incorrect results.

Although the problem has been mainly linked to mainframe machines and to the software that runs on them, any computer or electronic device is potentially vulnerable. That includes personal computers, communications networks, chips integrated into industrial control systems, consumer electronic devices, medical systems and safety equipment.

The failure rate of such "embedded systems" is expected to be very low, perhaps as low as 1 to 3 per cent, but the sheer number of these hidden devices poses a real challenge – some estimates put the number of embedded chips in use today at more than 25bn.

Meanwhile, billions of lines of computer software code, much of it written in-house, added to and patched together without proper documentation, need to be checked and the fixes tested.

This has helped spur a boom in offshore computer services centres such as in India where local companies have set up "software factories" to test and rewrite software code. It has also driven sales of replacement packaged software, particularly enterprise resource planning (ERP) software from companies such as Germany's SAP.

Even before 2000 arrives, failures have begun to occur in systems which handle forecasting or calculations involving dates after the end of next year such as pension or mortgage systems, or credit card transactions with expiry dates in 2000 or later.

"System failures due to year 2000 have been occurring for some time," Lou Marcoccio of Gartner Group told a US Senate special committee on the year 2000 technology problem last month. "They will increase in 1999, reach their highest volumes during 2000, and drop off during 2001. Few will continue past 2003."

Even if one company or one country solves all its own problems, the complex interdependencies between companies and countries mean that no one can be certain they are safe.

Aside from doomsday scenarios concerning nuclear power plants, weapons systems and communications infrastructure, quite ordinary failures could have dire consequences. For example, a manufacturer may have ensured that all internal systems are year 2000 compliant, but may still have to shut production down if supplies of a vital component dry up or utilities fail.

"Given the interdependence of economies and the potential for cross-border disruption, the problem is not solely a national issue," noted a report by the Organisation for Economic Co-operation and Development.

In fact, preparedness for the problem varies dramatically between countries and industries. In terms of country readiness there is a growing consensus that the US is well ahead.

'The US and Canadian governments are more than 40 per cent ahead of any other government'

The latest Millennium Index prepared by Cap Gemini, the European computer services group, which tracks the preparedness of private and public organisations, suggests the UK in particular is beginning to slip.

The index says the US leads, followed in Europe by Finland, Norway, Denmark, Germany, Sweden, France, UK, Belgium, Netherlands, Italy and Spain.

A similar exercise by the OECD ranked the US, Australia and Canada ahead of the pack, followed by the Netherlands, Belgium, Sweden, the UK, South Africa, Israel and Ireland.

All these countries were ahead of Japan, Switzerland, Italy and Germany where attention has focused more on preparing for the introduction of the euro – a much more complex IT issue. The OECD suggested China, Thailand, the Philippines and central Africa were 18-24 months behind with their year 2000 work.

Sharp differences also emerge in terms of industry preparedness. In general, insurance, investment services, and banking are ahead. Banking has a unique status, since small banks are lagging while large US banks are ahead of many other industries.

The insurance industry began experiencing failures more than 10 years ago and began compliance efforts early. Banks in the US began having failure problems nearly 30 years ago, but did not begin compliance efforts until they were driven by regulation. Infrastructure utilities and emergency services are critical for sustaining business operations and well-being.

In the US, Gartner predicts that general infrastructure, power, non-wireless telephones, and critical services will continue mostly uninterrupted, with potential for minor problems and inconveniences. However, most analysts continue to express concern that the health sector, education and many governments are lagging far behind.

"The US and Canadian governments are more than 40 per cent ahead of any other government in the world, but lag large, private industry in the US," said Gartner in the Senate testimony. Even in the US, while most states have year 2000 projects, more than two thirds of US cities and towns do not.

Elsewhere the picture in the public sector is even more bleak. As the OECD notes: "Concerns about the viability of government operations include the potential for loss or corruption of data and service delays or breakdowns in such areas as tax administration, customs, defence, emergency services, payroll, pension, social benefits and procurement systems among others."

Nevertheless, with just 400 days until midnight on December 31, 1999, there remains considerable uncertainty. "If the problem is effectively addressed, impacts on the world economy and populations could turn out to be minimal," said the OECD. "If not, however, impacts in any particular sector could have major and potentially critical impacts on others."

Tomorrow

Rest of the world lags behind the US

MILLENNIUM FACT FILE

Your questions answered

Q. How do I find out if my home computer is year 2000-compliant? Does it matter if it isn't?

A. It may or may not matter, depending on the nature of the problem and how you use the PC. However, if the PC is used for essential work you will want to check.

The first place to ask is the manufacturer or supplier. Most large multinational computer companies have internet web sites which address this issue, and many of these sites offer year 2000 "patches" – small programmes that can be downloaded over the internet to fix problems within the computer hardware.

There are also software packages available which claim to test, and in some cases, fix PC hardware problems.

Similarly, most big software developers including Microsoft have lists of which of their software is compliant and which not. In the case of software which is not year 2000 ready, it may be necessary to run a patch programme or upgrade the software to a later version.

Q. Are all PCs and software on sale now year 2000-compliant?

A. Unfortunately not. Most new PCs and software packages will be year 2000 compliant, but some machines and software on sale as recently as last year fail certain tests.

Certainly it is worth checking with the manufacturer, retailer or supplier before purchasing equipment or software.

Q. Why didn't they think about this when they programmed the computers? And when did they realise it was a problem?

A. In the early days of commercial computers no one envisaged that programmes written perhaps 30 years ago would still be running at the end of the 20th century.

It is only in the last decade that the problem was identified. Many IT managers preferred to pretend it did not matter rather than undertake the thankless task of going to the board to ask for extra money to fix a problem which many non-IT executives considered IT departments created for themselves.

Few blushes as Silicon Valley ponders profit

US computer industry has fixed its own year 2000 troubles and is wondering how much it will make out of other people's. **Louise Kehoe** reports

All the computers in the world have crashed. The US defence system has been crippled. No aircraft, trains or cars are running. Electricity and communications systems have closed down.

This is the doomsday scenario painted in *Y2K: It's Already Too Late*, by Jason Kelly, a former IBM technical writer.

Fortunately, Mr Kelly's book is fiction and most US computer industry executives, including those at his former employer, are far more optimistic.

Nonetheless, the title of the book reflects the general view in the US computer industry: large businesses and organisations that have yet to begin finding and eliminating software glitches associated with the turn of the century have left it too late.

Outsiders may see the year 2000 problem as an embarrassment for the computer industry, yet there are few blushes among the high-technology companies that populate California's Silicon Valley.

Instead, much of the debate is over whether the infamous inability of many computers to read 21st century dates is good, or bad, for business. For consultancies and programmers, it has been a boon, while for computer companies the problem is a mixed blessing.

"It's impossible to predict" how information technology spending would be influenced by the problem, said Lew Platt, Hewlett-Packard chairman and chief executive. There were several possible scenarios, H-P said, ranging from increased purchases of computers to replace older machines that are not year 2000 compliant to delays in hardware purchases as businesses concentrate spending on updating software.

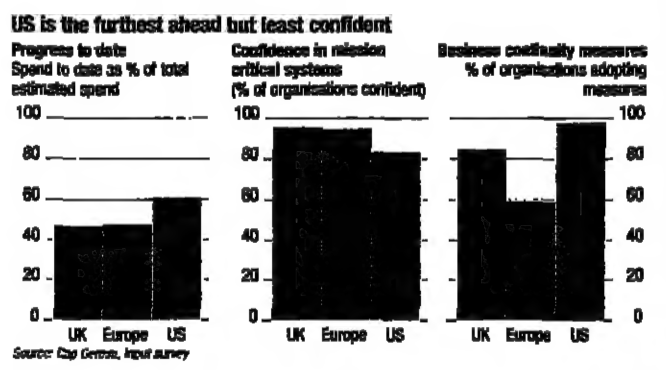
However, Silicon Valley companies are not only sellers of information technology products. They are also heavy users of IT and share in their customers' challenges of ensuring that internal systems remain reliable.

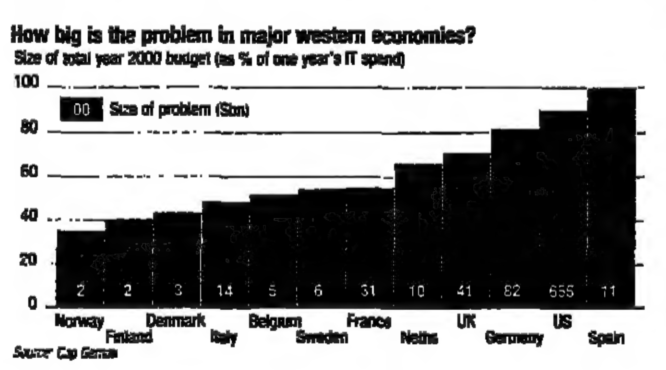
Sun Microsystems is typical. The computer and software company established a year 2000 group in early 1996. Initially focused on testing Sun's software products, the programme expanded to encompass efforts to ensure that internal systems were compliant. Elizabeth Cobo, a member of the Sun year 2000 team, explained that although Sun itself uses the latest technology to run its business, the company still needed to test all its systems.

Another mistake was to think the problem would hit at the turn of the year, causing a quickly resolved short-term problem

"It is a myth that only older, mainframe computers have problems," she said. This common misconception arose because the financial services industry – with long-term loans and investments stretching into the next decade and beyond – discovered problems earlier than most IT users, she explains. It so happens that financial institutions are heavy users of mainframe computers.

In fact, said Ms Cobo, all types and generations of computer systems are susceptible to year 2000 problems. As recently as a couple of years ago, programs were being written that did not take account of the date change. "It just depends whether the programmers were alert to the issue."





Another mistake, said Ms Cobo, was to think that the problem would hit at the turn of the year, causing a short-term problem that would quickly be resolved. More likely, she suggested, was a gradual emergence of computer systems problems beginning in the middle of 1999. Many companies have fiscal years that do not correspond with the calendar year, she noted. A company that begins its fiscal 2000 in mid-1999 may find out whether it has a problem in advance of the rest of the world. Alternatively, some businesses may discover year 2000 problems much later, when they run accounting programs, for example, for the first quarter or half of 2000.

As for the extent of the problem, the consensus in Silicon Valley is that most large US corporations and government entities have the issue in hand. Banks, in particular, are well prepared, as are most of the largest manufacturing companies. Small and medium-size businesses are of greater concern. However, their relatively simple IT systems are typically more easily fixed, or replaced, than those of larger organisations.

Outside the US, the picture is more mixed, according to Larry McArthur, president and chief executive at Ascent Logic, a consulting and software group that specialises is risk management. While about 85 per cent of large and medium-size businesses in the US are well on the way to fixing year 2000 problems, the number drops to about 60 per cent in the UK, Scandinavia and Belgium. In Germany, France, Spain and Italy only about 20 per cent of businesses have mitigation efforts under way.

Similarly, in Asia, Mr McArthur puts the number of well prepared businesses at fewer than 20 per cent. The economic effects of business interruptions in Japan and South Korea might prolong economic downturns in these countries, he predicted.

The disaster areas could be eastern Europe, Russia and Latin America, where very little work has been done to update computers, said Mr McArthur. Widespread disruption of business activities can be expected and companies with suppliers or customers in these regions may also suffer.

Health and defence are biggest headaches in US

Washington is taking the problem seriously and many federal departments have solutions in place. But there is concern over the $250bn a year health system and chips embedded in weaponry, reports **Mark Suzman**

Last month, shortly after concluding his budget negotiations with Republicans and minutes before heading off to the Wye River plantation to host the Middle East peace summit, President Bill Clinton approved one of the few pieces of legislation to make it through a bitterly divided Congress this session: the Year 2000 Information and Readiness Disclosure Act.

The fact that the bill's backers managed to push the law through when many other legislative proposals were left languishing was testament to the seriousness with which the US government is now confronting the year 2000 problem. Given the fact that it is the world's largest single user of computers, the federal government is particularly at risk.

"The Y2K problem is an enormous challenge and we must meet it," Mr Clinton said as he signed the bill into law. "Enactment of this legislation is a significant achievement toward allowing all of us to take a successful step into the new millennium."

Reinforcing those sentiments, on the same day the White House launched a "National Y2K action week" of educational events designed to raise awareness about the scale and scope of the problem, particularly in the public sector. In addition, in a last minute budget deal, the White House and Congress agreed to put aside extra money as part of an emergency spending package to help the US government meet the estimated $5.5bn costs of preparing its computer systems for the date change.

The sudden flurry of activity in Washington marks a sharp turnabout from last year ago, when the problem was barely on the political agenda. But since then Stephen Horn, a California Congressman, and Bob Bennett, a Utah senator, have led a successful congressional battle to persuade both Mr Clinton and many of their more sceptical colleagues of the need for action. Mr Horn, chair of a special subcommittee on government management, has been releasing a regular set of "report cards" on steps taken by 24 federal agencies in dealing with the problem.

Nevertheless, there are worries that it is too little too late. The legislation is designed to make it easier for private companies to share information on how to combat the problem by exempting them from liability if their proposed solution fails to work. But so far there is little evidence that companies have responded and time is running out.

Meanwhile, some government departments – most notably the social security administration, which administers welfare payments – have performed well in preparing for the millennium. But Congress remains concerned that at least six agencies, including the politically sensitive Transportation Department, which oversees the Federal Aviation Administration, are unlikely to have their mission-critical systems fixed in time.

Congress remains concerned that at least six agencies are unlikely to have mission-critical systems fixed in time

Partly in response, Mr Clinton has now officially designated the year 2000 problem as a top policy priority. In addition to setting up the special Council on Year 2000 Conversion to co-ordinate action across the government, he has required all cabinet secretaries to take direct action in their departments and make regular reports to the White House. John Koskinen, the council's chair, says that because of such moves tremendous progress has been made and he is optimistic that most US computers will be ready in time.

Nevertheless, analysts remain concerned about a few areas, including the health and defence departments. The former processes around a billion transactions a year and is responsible for $220bn-$250bn of spending a year, while the latter has millions of so-called "embedded chips" in weapons and machinery that may be at risk. An additional concern is that just addressing federal computers alone will not be enough – attention has to be paid to both state-level initiatives and the private sector.

"We have begun to focus very carefully with federal agencies on the interfaces between their systems and the systems they relate to – because even if we get our systems to run, the programs won't operate," Mr Koskinen admits.

Exacerbating the problem is the fact that many of the government's technical personnel have been lured away by lucrative offers from the private sector. More than half the 24 federal agencies have reported worries about staffing over the next 12 months.

But overall, US officials say that while much remains to be done, they are pleased with the progress that has been made. Mr Koskinen now communicates regularly with concerned members of Congress such as Senator Bennett, and over the next month the White House is planning a series of initiatives with international partners dealing with the problem.

"It's going to be a busy year," admits one staffer working on the issue.

هكذا من الاجل

Indonesian bankruptcy law dealt fresh blow

By Sander Thoenes in Jakarta

Indonesia's Supreme Court yesterday rejected its first bankruptcy appeal this year, dealing another blow to a battered new bankruptcy law which was designed to prove to investors that Indonesian borrowers could be held accountable.

The court rejected a high-profile suit filed by American Express and other creditors against Ometraco, a financial services conglomerate, arguing that the plaintiffs had failed to prove that a majority of creditors had called a default, as required in the syndicated loan agreement. American Express was the first foreign lender to test the new bankruptcy law, which took effect in August.

The ruling was published just as the International Finance Corporation, the corporate lending arm of the World Bank, added weight to these test cases by pleading for bankruptcy of Dharmala Agrifood.

The failure to succeed in bankrupting companies in Indonesia has become a significant deterrent to new lending since debtors started defaulting on much of the country's $80bn in corporate debt last year.

Indonesia toughened court deadlines and set up a new commercial court in September to speed up procedures, part of its reform package agreed with the International Monetary Fund.

Only 17 cases have been filed so far, however. Judges have declared only two direct bankruptcies and the three rejections have raised a storm of protests from lawyers, who accuse judges of failing to understand debt.

"Indonesia's credibility with international lenders will drop even further," said Eddy Lubis, one of the lawyers for American Express Bank and nine other creditors. "I have other clients who want to file but they were all waiting for this case."

Some lawyers observing the case said it may have failed because of poor argumentation but lawyers expressed outrage at last week's rejection by the commercial court of a bankruptcy claim against Pacific International Finance, owned by associates of former president Suharto. The three judges ruled that the plaintiff, state-owned Bank Exim, should apply to a regular court instead, because Pacific had already transferred some assets to its parent company.

"This is crazy," said Fredrich Yunadi, Bank Exim's lawyer. "Whether they pay a third party or not has no bearing on their debt to Bank Exim."

"This is not a school example of how it should be done," said Jerry Hoff, who trained the judges and is an adviser to the IMF.

Much of the controversy over the cases so far concerns the nature of debt. Dharmala's lawyer, Hotman Paris Hutapea, yesterday argued that derivatives were not debt and secured creditors could not sue for bankruptcy. The commercial court earlier ruled that American Express was wrong to sue for both Ometraco's debt and the loans it had guaranteed for its subsidiary.

Mr Hutapea said the law was too vague. "In Indonesia, when you have two different opinions there is an opportunity for collusion."

"There is nothing wrong with the law," Mr Hoff countered. "It's a matter of will to work with it."

Australia turns to touch-tone trading

By Gwen Robinson in Sydney

Australia yesterday gained its first automated telephone broking service, one of very few in the world that enable direct share trading via a touch-tone telephone.

The service is intended to capitalise on record growth in stock ownership. Australia last year became the second largest share-owning country.

The automated discount service, PhoneTrader, was developed by HSBC-Australia to attract small investors who lacked access to internet broking services and wanted fast, low-cost trades.

The Australian Stock Exchange (ASX) is among only a handful of stock markets with technology enabling open interface with phone and computer systems.

The country has experienced an unprecedented boom in stock ownership and discount broking services, driven largely by small and first-time investors following a string of successful flotations including Telstra, AMP and most recently, Cable and Wireless Optus. The ASX last month became the first stock exchange to demutualise and list on its own boards. It said yesterday that half-year profit would probably double from its pre-listing forecast.

About 41 per cent of Australians own shares directly or indirectly, up from about 14 per cent in 1991, according to ASX. This compares with about 43 per cent in the US.

HSBC estimated its discount phone broking service would capture about 5 per cent of Australian share trading volume, or an average of about A$40m (US$25m) a day given daily market turnover of about A$750m-A$1bn.

Retail investors account for about a fifth of total volume on the Australian market. Richard Kimber, head of HSBC's new service, predicted further growth in retail interest. "Non-advisory equity brokerage is an expanding market, as more Australians seek to make their own investment decisions," he said.

PhoneTrader allows customers direct trading through the ASX 24 hours a day, punching numbered codes into their phones for the companies they want to buy or sell. Trades are instant during normal trading hours, and customers can also access real-time market and portfolio information.

Japan hopes Jiang's visit will mark new phase in relations

Michiyo Nakamoto and Stephen Fidler report on the background to the first official visit by a Chinese head of state to Tokyo

The arrival of China's President Jiang Zemin in Japan today is being awaited with a level of nervous expectation that makes President Bill Clinton's stopover last week seem like a holiday.

It is not just that Mr Jiang's visit to celebrate the 20th anniversary of a bilateral peace and friendship treaty is an historic one – the first official visit ever by a Chinese head of state to Japan.

There is also tremendous hope in Japan that the visit will mark the beginning of a new, more positive chapter in a tortured relationship.

But already the celebrations have been marred by age-old tensions over Japan's atrocities during the second world war, over Taiwan and over the US-Japan security alliance. New strains have also emerged in the wake of the Asian economic crisis.

In spite of a 20-year-old treaty, their growing economic interdependence and a strategic interest in improving mutual understanding, the relationship between China and Japan is perhaps the least developed among those with the greatest impact on Asia-Pacific security. Su Ge, professor at the Beijing Diplomatic Institute, the school for China's diplomats, describes China's relationship with Japan as "the least easy compared with other major powers". A senior official in Japan's ministry of foreign affairs describes the relationship as "fraught".

In an indication of how little progress has been made, the two governments were still wrangling yesterday over the wording of a joint declaration in which Japan would apologise for its invasion of China during the second world war.

The strains have grown since the recent renegotiation between the US and Japan of their defence treaty. Under the new security guidelines, Japan can agree to help the US in a large number of areas, from providing supplies and medical help to US forces to minesweeping and intelligence gathering.

China has never liked the treaty.

The existence of disputed territory claimed by both countries means the treaty could in theory be invoked to defend land which China claims.

Specifically, the Chinese want assurances that the treaty's guidelines would not be invoked over Taiwan, which Beijing regards as a renegade province but which the US is strongly committed to defend. More fundamentally, China views itself as one of the treaty's principal targets.

The problem has been made more acute by Japan's decision to begin research and development work into the possibility of obtaining a missile defence system. The decision was taken before North Korea launched a rocket over Japanese territory in August, which Japanese scientists believe was a missile test rather than a failed satellite launch. But that incident has strengthened the view of some Japanese that there is a need for such protection.

China does not like this. "What we don't wish to see is that some countries... take measures that are detrimental to peace and stability in the region, for instance, theatre missile defence," says Wang Yingfan, China's vice-minister for foreign affairs. "Some [in the US Congress] want to include Taiwan in the [missile defence] system and if Japan also takes such a system, our region will be volatile."

Jiang Zemin: China and Japan have to prove they can work together in addressing not just bilateral matters but also broader issues AP

The bilateral relationship has come under renewed strain on the economic front as well. There is lasting resentment that Mr Jiang and Mr Clinton jointly criticised Japan after their summit meeting in July for Tokyo's failure to reflate the economy.

At the same time, China is the largest recipient of Japanese bilateral aid and Japan has been China's staunchest supporter in its bid to join the World Trade Organisation. Japanese investment in China amounted to $1.91bn in fiscal 1997, while total trade came to $63.6bn last year.

Yet it is only with this visit that the two will declare their relationship a "partnership", a term most global powers including China have applied to relations with other global powers, notes Akira Ishii, professor of international relations at Tokyo University. "Chinese leaders don't seem to think it is necessary to discuss global issues with Japan," he says.

By contrast, China has found common ground with the US on regional issues that at the very least might be considered close to the hearts – and certainly the interests – of the Japanese, who have nonetheless been forced to watch from the sidelines. They include attempts to ease tensions in the south Asian subcontinent after nuclear tests by Pakistan and India and four-party talks involving the US, China and the two Koreas aimed at resolving nuclear-related and other tensions on the Korean peninsula.

A Japanese official said one consequence of Chinese concerns was positive: "We are having to engage in a real policy dialogue." As part of this, Japan has proposed a triangular partnership with the US and China on security issues.

But it is a suggestion that does not find favour in Beijing, which sees itself as coming off worse in a three-way relationship with two allies, Chinese analysts say. Mr Wang says of China's relations with other countries: "We never discuss as triangular."

Although Japan is unlikely to satisfy its guest on most contentious issues, Mr Jiang's visit will at least go some way towards removing mutual suspicions.

But as Mr Ishii notes, for the new partnership to have real substance, China and Japan will have to prove they can work together in addressing not just bilateral matters, but broader, regional, or even global issues as well.

Pakistan 'must meet' tough tax revenue targets

By Farhan Bokhari in Islamabad

Pakistan's finance minister, Ishaq Dar, yesterday warned senior tax collection officials that achieving tough revenue collection targets this year was imperative to help stabilise the economy.

He also promised to protect the officials from political influences in their attempts to maximise the tax take.

"The targets may look very high but every effort has to be made to achieve and exceed [them] as it is the call of the national economy," Mr Dar told senior tax officials of the Central Board of Revenue (CBR), the tax collection agency.

Mr Dar's warning was delivered one day before the expected conclusion of an IMF mission's visit to Pakistan.

Pakistan is currently negotiating a new loan package with the Fund which officials say could bring about $500m-$600m in disbursements during the financial year to June.

The loan is expected to become the cornerstone of an international package of loans and debt rescheduling from the Paris club and commercial banks to stave off an impending default on the country's foreign debt.

The Fund is understood to have urged the country to pay special attention to tackling rampant tax evasion. Fewer than 1 per cent of Pakistan's population of about 140m pay income tax.

Yesterday's meeting for the first time detailed the scale of tax evasion. A senior official from the CBR quoted in-house research suggesting that up to Rs200bn ($4bn) is evaded annually in unpaid custom duties on smuggled imports. That is more than half of this year's entire tax collection target of Rs334bn understood to have been agreed with the Fund.

Senior government officials were cautious on Mr Dar's promise of protecting them from political influence.

CBR officials say they are often subjected to harsh treatment by politically powerful businessmen, who evade not only taxes but also prosecution from tax officials.

In one case, tax officials were beaten by a group of shopkeepers in Lahore earlier this year at an upper class shopping district, just minutes away from the family home of the prime minister, Nawaz Sharif. There were no immediate arrests. Officials say that the incident demoralised many staff members, who felt the government was not committed to protecting them.

Islamabad, Delhi in power talks

By Mark Nicholson in New Delhi

Indian officials are due today to open technical talks in Islamabad on the feasibility of buying electricity from Pakistan, a move being encouraged by foreign donor countries as a step towards improving ties between the south Asian rivals.

The technical discussions are the modest, first fruit of resumed bilateral talks following nuclear tests last May and the attendant international pressure to engage in direct discussions and cool tensions.

A seven-member Indian team left Delhi last night for talks expected to focus on the technicalities of linking the two countries' power grids. A separate Indian team will visit Pakistan next week to discuss creating a direct bus service between Delhi and Lahore. The bus link, which both sides have said could begin operating next month, would be the first direct land transport service between the neighbours.

Both India and Pakistan acknowledge that these meetings of experts are the first hint of an institutionalised dialogue in more than a decade of faltering bilateral negotiations.

Indian officials have welcomed such lower-level contacts as "psychologically" important. However, Pakistan maintains the position that there can be little progress in talks with Delhi until there is progress on the "core issue" of Jammu and Kashmir, twice a cause of war between the two countries. High-level talks are due to resume in Delhi in February.

Guangdong set to seek investment bank advice

By Louise Lucas in Hong Kong

Guangdong, China's wealthiest province, is set to hire Goldman Sachs to advise on a restructuring of its investment agencies.

No official appointment has been made yet and it is understood that one other investment bank is also on Guangdong's shortlist. However, Goldman Sachs, which co-sponsored China's biggest initial public offering, is seen as the frontrunner.

The move to bring in investment bankers follows last month's closure of Guangdong International Trust and Investment Corp (Gitic), an investment arm of the provincial government, over its inability to repay debts. Gitic's closure sent jitters through the investment community, prompting some banks to rein in lending. The resulting credit squeeze has exacerbated the mainland entities' problems.

Guangdong is seeking to stop this by restructuring its main Hong Kong-based investment arm, Guangdong Enterprises, and its listed flagship, Guangdong Investment.

Wang Qishan, Guangdong's recently appointed vice-governor, who is a former investment banker, initiated the overture to Goldman Sachs.

While other countries have made similar appointments – most notably Malaysia, which hired Salomon Smith Barney earlier this year – China's relations with foreign investment bankers are usually restricted to individual privatisations, project financings or other deals.

However, Mr Wang – who is regarded as a protégé of Zhu Rongji, China's prime minister, having served under him at China's central bank – was chairman of China International Capital Corp before his appointment to Guangdong in April of this year.

Guangdong entities listed in Hong Kong were among those tapping the stock market for cash earlier this month, and Guangdong Investment said it planned to issue a US$27m convertible bond.

Union rights 'elusive' in much of Asia, says ILO

By Robert Taylor, Employment Editor

The right of workers to form trade unions without the prior permission of the state remains "elusive" in much of east and south-east Asia, according to the International Labour Office in a report from its committee on freedom of association.

It reveals that only four out of the 12 countries in the region have signed the core ILO convention on freedom of association and protection of the right to organise. The report says that in Burma "ratification means little where democracy and the rule of law are denied".

In Indonesia the ILO convention was ratified only in June "following years of systematic repression". Japan and the Philippines are the only two countries in the region where freedom of association has been satisfactorily upheld, it says.

The ILO committee on freedom of association upholds a complaint against the Chinese government in Hong Kong, made by the Hong Kong Confederation of Trade Unions, which accused the authorities of violating labour laws dating from when Hong Kong was a British colony. It calls on the administration to repeal regulations that restrict union office to people actually employed in the trade, industry or occupation of the union concerned. The report also requests the Chinese government to repeal restrictions it has imposed on the use of union funds for political purposes.

The ILO committee called for the release of 50 trade unionists in South Korea who were detained after this year's May day rally. It said the Korean government should ensure, as promised, that teachers were allowed the right to organise as well as certain categories of civil servants. The ILO insists the authorities should register the Korean Confederation of Trade Unions.

Criticisms about abuse of worker and union rights are also upheld against Cambodia, Indonesia, Burma and Malaysia.

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Rebound in consumer confidence

Nazi loot seen as a threat to art trade

Russia 'needs N-arms help'

Chávez ahead in opinion poll

On the web

US GROWTH IS REVISED UPWARDS

Rebound in consumer confidence

By Gerard Baker in Washington

US consumer confidence rebounded sharply this month as the economy defied expectations of a slowdown and the stock market surged back to new records, according to a closely watched monthly survey published yesterday.

The Conference Board, a private sector research group, said its main index of consumer confidence rose to 126 in November, from 119.3 in October, the first increase in four months.

"Favourable economic conditions and confidence about the health of the economy over the next six months have lifted consumer spirits," said Lynn Franco, associate director of the board's Consumer Research Centre.

In a sign of the strong momentum of US growth in recent months, the Commerce Department said that the overall economy grew at a faster pace in the three months to September than it had initially reported.

Gross domestic product grew at an annual rate of 3.9 per cent in the third quarter, up from the 3.3 per cent previously reported. Stronger consumer spending and a slightly better trade performance were the reasons for the upward revision.

The rate of growth accelerated from 1.8 per cent in the second quarter, largely as a result of a rapid increase in stockbuilding by companies, which suggests growth may slow somewhat by the end of the year.

In a separate sign that growth may in fact be decelerating in the fourth quarter of 1998, the Commerce Department also reported yesterday that new orders for durable goods decreased by a seasonally adjusted 1.7 per cent in October, the first monthly decline since May.

A big increase in aircraft orders kept the decline from being much larger. Excluding aircraft and parts, non-defence-related new orders for capital goods dropped by 9.2 per cent, a powerful indication of the weakness of the manufacturing sector.

Nonetheless, the economy still seems on track for growth in 1998 of close to 4 per cent – the third consecutive year in which output has expanded by more than 3 per cent, well above what economists have traditionally thought was the pace sustainable in the long-term without igniting inflation.

And yet inflation in the third quarter dwindled further, according to the latest figures.

The GDP price deflator – an index of the prices of goods produced within the US – edged up at an annual rate of just 0.8 per cent in the third quarter.

Profits after tax declined 1.8 per cent in the three months to September, and were 6.2 per cent lower than in the same period a year ago.

NEWS DIGEST

STATE DEPARTMENT WARNING

Nazi loot seen as a threat to art trade

Confidence in the world art market will be undermined unless the international community can agree how to deal with property looted by the Nazis, the US government warned yesterday.

Stuart Eizenstat, US undersecretary of state, said the unresolved issue of art stolen from Holocaust victims threatened to restrict trade in fine art and block international exchanges of art between museums.

Mr Eizenstat said the State Department was planning to set up an internet site to co-ordinate information to help identify disputed artworks and re-establish confidence in the international art world.

His comments came ahead of the Washington conference on Holocaust-era assets next week which will bring together 44 countries and 13 international organisations. The conference aims to build a consensus around how to deal with looted art, insurance and community property seized by the Nazis. **Richard Wolffe, Washington**

CALL FROM LUGAR

Russia 'needs N-arms help'

Richard Lugar, the Republican senator who has been an important architect of the policy under which the US pays Russia to dismantle its nuclear weapons, yesterday said the US should provide more financial help to reduce further the former Soviet nuclear arsenal.

Speaking after returning from a nine-day fact-finding trip to Russia and Ukraine, he said the US should also make financial contributions to improve security in the biological weapons area. "We must attempt to prevent proliferation and reduce the loss of trained biological scientists to rogue nations. But we must also increase transparency in these [biological] facilities to enhance American military protection and US counter-terrorism capabilities," he said.

He said while in Russia he had conducted the first meeting with the directors of 13 biological institutes there. "They communicated their current predicament of unpaid wages and abandonment by Moscow, and their hopes of entering into co-operative relationships with their counterparts in the west," he said. **Stephen Fidler, Washington**

VENEZUELAN ELECTION

Chávez ahead in opinion polls

Two leading opinion polls yesterday predicted a clear victory for Hugo Chávez – the former army lieutenant-colonel and leader of a unsuccessful coup – in Venezuela's presidential elections on December 6.

"Chavez should win with at least a 10-point lead," said Saul Cabreras, director of the polling firm Consultores XXI.

Luis Vicente Leon of the polling group Datanalisis added: "Chávez is most likely to win. He has captured the sentiment of the vast majority of Venezuelans seeking far-reaching change."

According to the latest Datanalisis poll, Mr Chávez had a 45.8 per cent popularity rating, compared with 40.7 per cent for Henrique Salas, the independent former state governor.

The only way Mr Salas could win, suggested Mr Leon, was if something completely unforeseen happened or if Luis Alfaro Ucero, the candidate of the social democratic AD party, was to withdraw from the race.

The AD votes could go to Mr Salas, though this was unlikely, he said. The Datanalisis poll suggested a 4.5 point lead by Mr Chávez even in a two-way race with Mr Salas. **Raymond Colitt, Caracas**

On the web today
● Low US tax rates attract high-earning Canadians southwards ● Brazil vows to continue privatisation
● Dreamworks plan for LA studio advances
http://www.FT.com/Americas

Argentine voters face choice between caution and change

Winner of next Sunday's poll to choose the opposition presidential candidate may well become president, says **Ken Warn**

It is a race between an insider and an outsider – a man who has spent his working life at the heart of Argentina's byzantine politics and a woman pulled into political activism by personal tragedy.

Argentines vote on Sunday to choose a presidential candidate for the opposition Alliance, and polls show the winner could have a strong chance of becoming president in October 1999.

The contest pits Fernando de la Rúa, the mayor of Buenos Aires and leader of the centrist Radical party, against congressional deputy Graciela Fernández Meijide, leading vote-winner for the left-of-centre Frepaso. The Alliance, patched together from the two rival forces in August 1997, remains a marriage of convenience. Both candidates are members of its often-fractious five-strong leadership.

The national primary, open to all voters except registered members of other parties, is not just a battle between two distinct personalities, but between two political cultures.

Mr De la Rúa, widely known as *Chupete* (a baby's dummy or soother) because of his youthful start in national politics, enters the last lap of the primary race with a 5 to 7 point advantage in the opinion polls.

There is not much that is childlike about Mr De la Rua's campaign – he is openly running as a cautious manager who would spring few surprises. Since becoming the first elected mayor of Buenos Aires in 1996, he has sought to clean up the city's finances and put over-priced services out to competitive tender.

Mrs Fernández Meijide, by contrast, is running as a force for deeper change. A French teacher who entered politics after the disappearance of her son in the 1976-83 military government's "dirty war" against its ideological opponents, she has maintained an invulnerable aura of personal integrity and developed a no-nonsense campaign style.

Her resounding win in Buenos Aires province over the ruling Peronist party in mid-term elections last October confirmed Mrs Fernández Meijide as Frepaso's chief vote-winner and a powerful advocate of its strong anti-corruption stance.

Graciela Fernández Meijide (left) is running as a force for change while Fernando de la Rúa is unlikely to spring any surprises AP

Equality of opportunity and an end to social "exclusion" are the watchwords of her campaign, which, like her rival's, is short on policy detail.

Both candidates have their weaknesses. Even Mr De la Rúa's most fervent admirers acknowledge he suffers from a "charisma deficit". The more combative Mrs Fernández Meijide, while authoritative in person, can come across as tetchy and unfocused on television. Critics argue she has never actually run anything.

Both wings of the Alliance have backed the key elements of President Carlos Menem's economic policy, including the peso's one-to-one peg to the dollar. There will be no rowing back from privatisation.

But Mr De la Rúa is the candidate closest to the country's establishment. The fault lines between the two presidential hopefuls were exposed recently when Mr De la Rúa appeared to anoint Ricardo López Murphy, an economist at the private think-tank, FIEL, as his choice for economy minister in a future Alliance government.

The orthodox economist was "even worse than" Roque Fernández, the current economy minister, fumed Mrs Fernández Meijide. The mild-mannered Mr Fernández remains a byword for uncaring capitalism in Frepaso circles.

A win for Mr De la Rúa on Sunday and next year would leave the country's traditional political forces unchallenged, said political analyst Rosendo Fraga. "But a win for Mrs Fernández Meijide next year means a strong impulse for change."

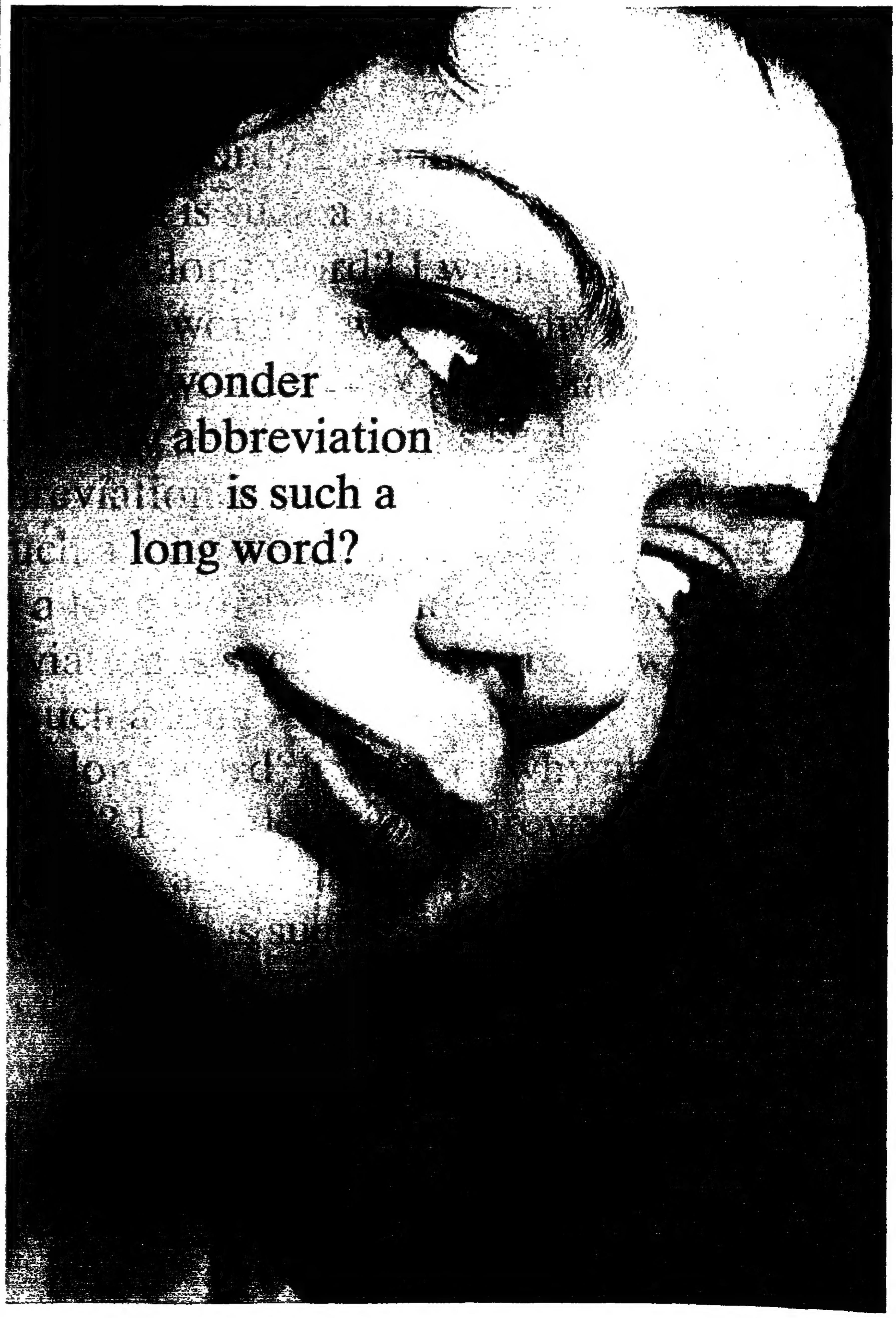
While the Radicals and the ruling Peronists are historic foes, they have developed a form of broad political consensus that has ensured governability since the return to democracy in 1983. Mrs Fernández Meijide remains outside that charmed circle. If she were to become president, she would struggle to push her agenda through Congress, as the Peronists look likely to maintain control of the Senate until at least 2001.

A less than clear-cut result on Sunday could also put renewed strains on the Alliance. It remains an unstable compound between the Radicals, the century-old party of Argentina's middle class, and Frepaso, a coalition of left-of-centre forces which has little grass-roots structure.

The Radicals, with their well-oiled political machine, could also find it difficult to rally behind the relative newcomer, Mrs Fernández Meijide, if independent voters back her candidacy in force.

A fracture in the Alliance after Sunday would give new hope to the Peronists, languishing in the opinion polls and not due to pick their candidate until April. Mr Menem is barred under the constitution from running for a third consecutive term.

But if the Alliance holds, the opposition would enter the presidential contest united, while Peronism has itself splintered with the defection of Domingo Cavallo, the former economy minister. This would be the exact reverse of the position in the 1995 race, said Mr Fraga, when Mr Menem, the quintessential insider, romped home to a second term in the middle of a steep recession.



Gaza's red carpet to the outside world

By Judy Dempsey in Gaza

It was, as Yassir Arafat kept repeating, an historic day.

From eight in the morning until close to noon, the president of the Palestinian Authority yesterday walked several times along a red carpet to the runway.

Flanked on each side by a guard of honour, he welcomed the first flights to Gaza since 1948.

After lengthy negotiations with Israel, Palestinians got their own, and so far, only exit to the outside world with the opening of Gaza International Airport, dedicated to Mr Arafat.

It notched up another symbol of Palestinian statehood and sovereignty.

Egypt, which provided more than a third of the $85m construction costs, was given the honour of landing the first aircraft – ending an absence of more than 50 years when in June, 1948, an Egyptian aircraft was the last to touch down on Gaza territory.

At set intervals, revealing a rare Palestinian organisational skill, aircraft from Jordan, Morocco, the European Union, which donated $38m, Austria and Spain followed – all landing on time.

Each time an aircraft landed, the brass band struck up, the invited crowds cheered and Mr Arafat led the dignitaries to the VIP lounge, magnificently decorated by Moroccan craftsmen provided by King Hassan. Verses from the Koran were engraved on the ceiling. Tiles of blue and yellow, red and green covered sections of the floor.

"An historic day," Mr Arafat told Miguel Angel Moratinos, the European Union's envoy to the Middle East peace process. The EU had rented an aircraft from a private Israeli company – and flew from Israel's Ben Gurion airport even though Israel will not allow its own citizens to travel out of Gaza or allow its national airline to land there. The departure board showed Gaza, Amsterdam, New York.

Inside Gaza airport, Israeli security officials kept a low profile. Under the terms of last Friday's protocol, Israel has the right to vet the passenger list, check passports, control the airspace. Its presence might become more visible once the airport becomes fully operational in the coming weeks.

Outside the heavily guarded entrance to the airport, Gazans quietly looked on. Some, born in refugee camps, had never been in an airport, had never seen an aircraft land, had never bought an airline ticket.

"For Gazans," explained Mohammed Khatib, a clerk, "the airport means more to us than an Israeli troop pullback from the West Bank. We were locked in Gaza, with no freedom to travel to the West Bank, Jerusalem, Israel. The airport is our window to the world." Palestinian security forces kept the curious onlookers well back, clearing the way for the dignitaries. With breakneck speed, Palestinian drivers and armed escorts drove them past orange groves and a Jewish settlement, with a brief stop at the new Gaza Industrial Estate. Finally, they stopped for lunch at the luxurious Seagull Tourist Resort, not far from Mr Arafat's offices in Gaza City.

There, in a large dining room, Mr Arafat, with Safwat Sharif, Egypt's information ministry on his left, and Prince Faisal, son of Jordan's King Hussein on his right, dined on stuffed vine leaves and soup, fish and lamb. No US or Israeli diplomats were present.

The speeches, unusually, were short. Saeb Erekat, Palestinian chief negotiator, who earlier admitted he had cried when the first aircraft landed, said a few words.

"We are back. We never left," he said. "Today, we are closer to Jerusalem, our eternal capital, and to becoming a Palestinian state."

UN REPORT SUB-SAHARAN AFRICA SEEN AS 'GLOBAL EPICENTRE OF AIDS EPIDEMIC'

HIV infects 6m people in a year

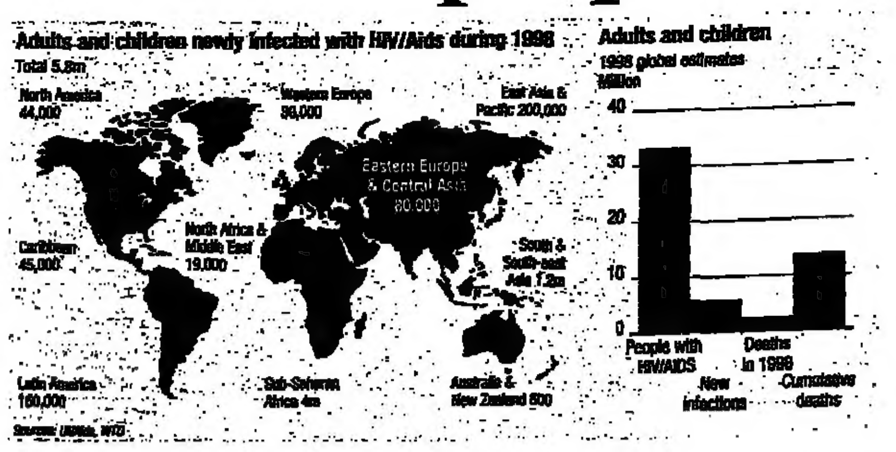
By Clive Cookson, Science Editor, in London

Almost 6m people have been infected with HIV over the past year, the United Nations said yesterday in its annual update on the Aids epidemic. Half of the new infections are in the 15 to 24 age group, and two thirds are in Africa.

According to UNAids, the joint UN programme on the disease, 2.5m people died of Aids this year and the total number living with HIV rose to 33.4m.

"Two decades into the Aids epidemic, we know better than ever about prevention – how to persuade people to protect themselves, make sure they have the necessary skills and back-up, and remove social and economic barriers to effective prevention," said Peter Piot, UNAids director. "Every one of these new HIV infections represents a prevention failure, our collective failure."

Dr Piot and Clare Short, the UK international development secretary, told a news conference in London that greater availability of condoms was essential to prevent infection.



"It needs to become as easy to get hold of a condom in a poor country as a Coca-Cola," Ms Short said. "If Coca-Cola can be everywhere throughout the poorest countries, then so can condoms."

Her appeal was supported by Bill Roedy, president of MTV, the international music channel. Yesterday he joined Ronaldo, the Brazilian football star, as a UNAids "ambassador".

Mr Roedy said he would spread the HIV prevention message prominently in media aimed at young people, including MTV.

"We try to use the influence of pop culture to deliver a message," he said. "Quite simply, condoms are cool and using them is cooler. We want to make it trendy, hip and cool to use condoms."

The UNAids report, released ahead of World Aids Day next Tuesday, shows that sub-Saharan Africa is the "global epicentre of Aids". The epidemic is spreading most rapidly in the continent's southernmost countries, where 20 to 26 per cent of adults are infected.

In this region, Aids is "an urgent and massive threat to development," the report says. Children born in Botswana early in the next century will have an average life expectancy of just over 40 years; in the absence of Aids, they could have expected to live to 70.

Yet there are bright spots, even in Africa. One is Uganda, which was hit hard earlier in the epidemic but is now showing signs of recovery through a vigorous prevention campaign. The proportion of urban Ugandans in the 20-25 age range with HIV has fallen from 30 per cent to 10 per cent over the past five years, Dr Piot says.

Asian infection rates are still far lower than in Africa but UNAids says more than 7m Asians are HIV positive and the virus "is clearly beginning to spread in earnest through the vast populations of India and China".

In Europe and north America new anti-HIV drug combinations – far too expensive for widespread use in developing countries – have cut the Aids death rate sharply. The number dying in the US has fallen by two-thirds in two years.

But the rate of new HIV infection in Europe and North America has remained fairly constant at about 75,000 per year over the past decade, as people persist with risky behaviour – unprotected sex and, particularly in southern Europe, sharing needles for illegal drug injections.

As a result, the number of people living with HIV is increasing steadily. Aids Care Education & Training (ACET), a UK charity, says British deaths from the disease fell from 1,276 in 1992 to 381 in 1997 and possibly as few as 250 this year, while the number infected increased from 12,000 to 20,000. ACET estimates that by 2002 there will be 30,000 people with HIV and their treatment will cost £300m ($500m) a year.

Assassination attempt fails to ruffle holy city

By Roula Khalaf in Karbala

At the entrance to the shrine of the Imam Hussein in Karbala, more than 100km south of Baghdad, there was no trace yesterday of the weekend's abortive attempt to kill *Izzat Ibrahim*, one of the top figures in the Iraqi regime.

Two days after the failed attack, Shia pilgrims, including crowds of Iranians, went to pray at the tomb of the grandson of the Prophet Mohammed. Stores across the street selling popcorn, cheap jewellery and plastic toys were open for business.

In a country which is adept at portraying every blow as a kind of victory, the attempt on the life of Mr Saddam's deputy – the first confirmed attempt since the failed attack on Mr Saddam's son Uday in 1996 – was being played down.

However, questioned by western journalists surrounded by government minders, the store owners just outside the shrine claimed they were not at work on Sunday, the day Karbala celebrated the birth of Imam Hussein. They insisted they had seen nothing and would not even admit to having heard about the attempt.

Fadel Majeed, a retired teacher, was the exception. After twice repeating that "there was nothing, Saddam Hussein is very good, very good," he gave an eyewitness account of how a lone young assassin with three grenades in his hands had thrown two of them at Mr Ibrahim as he stepped out of his car and prepared to enter the shrine. The assassin wounded three of the official's bodyguards and scores of civilians, he said, but was immediately gunned down by a "heroic " policeman.

The birthday celebration of Imam Hussein in the holy city is an event which every year brings a key official to the shrine to represent Mr Saddam. Mr Ibrahim, who did the honours on Sunday, is a 56-year-old military man and a Sunni Moslem born in a town 25km south of Mr Saddam's birthplace in Tikrit. One of Mr Saddam's closest advisers, he is charged with internal and Baath party affairs.

Karbala has had a bloody history, which goes back to the 7th century battle known by the city's name.

But in Iraq's recent history, the city is remembered as one of the centres of the 1991 Shia uprising which followed the Gulf war. Iraq's Shia community, making up more than 50 per cent of the population, has not shared in the political power dominated by Sunnis from Tikrit. After the Gulf war, the Shias in the south and the Kurds in the north rose, wrongly believing their revolts would be backed by the allied coalition and that it would end Mr Saddam's rule.

The Iraqi government, which maintained the revolt was orchestrated and conducted by Iranian infiltrators, put a forceful end to the riots in an offensive which erased a large part of Karbala.

But that is not an episode in history the locals like to discuss. Officials and supporters of the regime prefer to focus on the reconstruction of Karbala. According to scholars, the souks were rebuilt in an Islamist-style architecture but one that no longer accentuated the city's Persian influence. It was Mr Saddam, again, who donated the gold – as much as 500 kilos – to recover the damaged dome and minarets of Imam Hussein's tomb.

In a reception room by the courtyard of the shrine, Abdul Sahib Naser Nasrulla, the keeper, said the city has lived a peaceful existence since 1991, wrapped in the good graces of Mr Saddam.

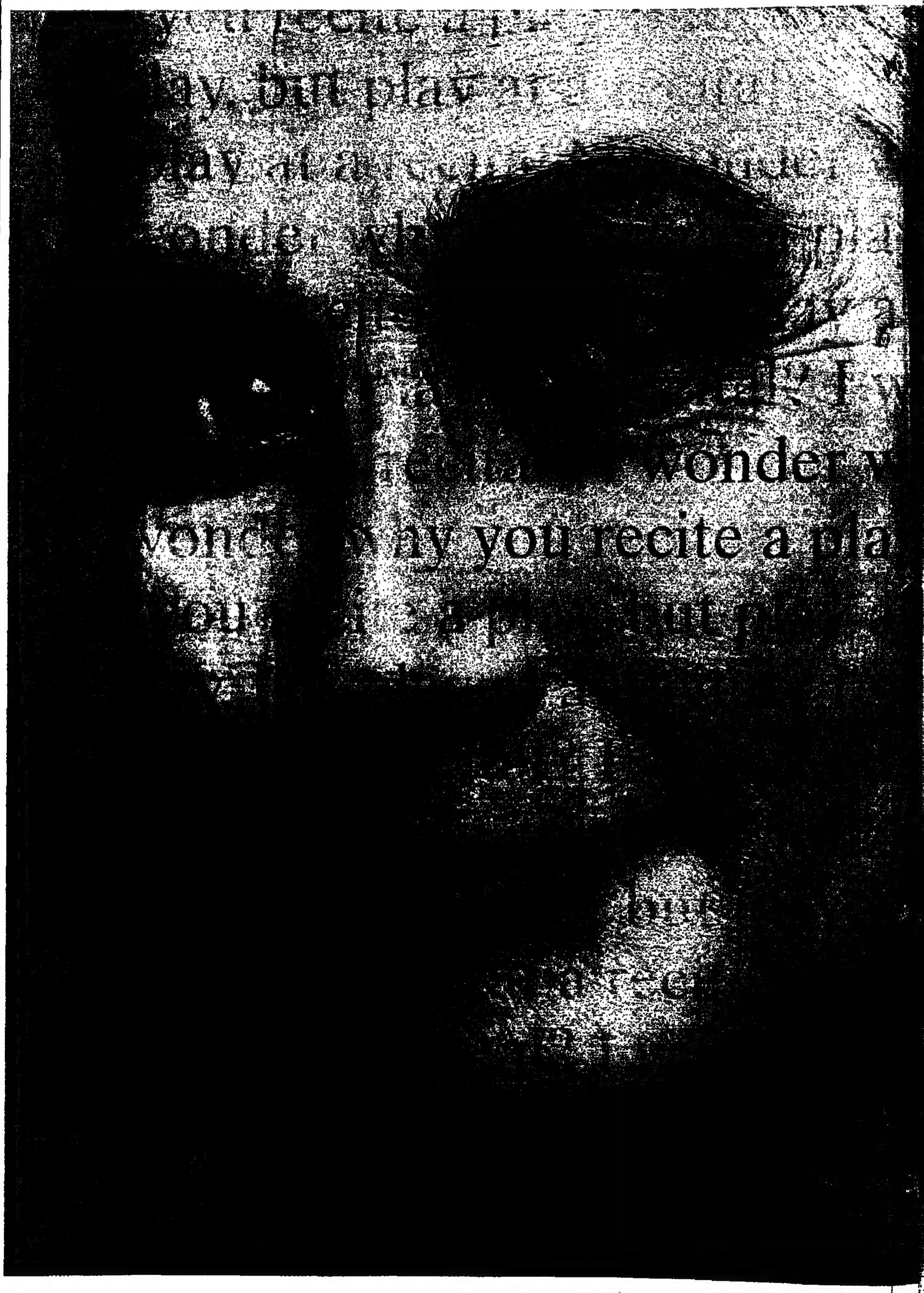
"The enemies of Iraq bet

on Karbala, thinking it would side with them, but this is not the case," he said. "All of Karbala's women, children and *chouyoukh* (elderly) are with the leader." Mr Nasrulla was greeting Mr Ibrahim when the grenades hit the crowd last Sunday.

But he maintained the incident was so insignificant that they had pursued their visit to the shrine, and then had taken a walk on the streets of Karbala. For him, the assassination attempt was part of the larger US conspiracy to destroy Iraq and Mr Saddam.

The clergyman ended a meeting yesterday with a long diatribe of typical Iraqi defiance, and a message to Iraq's enemies.

"Thirty countries with all their might, their fleets, and star wars capabilities... could not shake or even *scratch the government of* Iraq," he said referring to the Gulf war. "Do you believe such a silly and trivial thing would change anything? Say I was Izzat Ibrahim and I had been killed, what difference would it have made?"



UAE in $2bn missile order

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WORLD TRADE

UAE in $2bn missile order

By Alexander Nicoll in London and David Owen in Paris

The United Arab Emirates yesterday continued a weapons buying spree by ordering missiles worth more than $2bn to equip Mirage jets which it is buying from France's Dassault.

Matra BAe Dynamics, a joint venture between Lagardère of France and British Aerospace, will supply Mica air-to-air missiles and Black Shaheen air-to-ground missiles as well as counter-measures systems. The UAE is buying 30 Mirage 2000-9 aircraft and upgrading 33 Mirage 2000-5s under a $3.2bn deal signed last week.

Sale of the Black Shaheen, which Britain's Royal Air Force is buying under the name Storm Shadow, was approved in principle by the UK Ministry of Defence as not breaching the Missile Technology Control Regime.

Meanwhile, the UAE is negotiating terms of the $6.8bn purchase of 80 F-16 fighters from Lockheed Martin of the US. Lockheed, whose aircraft were selected by Abu Dhabi in May, acknowledged yesterday that signature of the contract would slip into next year because of continuing discussions over issues including pricing.

Though Lockheed would not comment on it, the main hold-up is believed to be in negotiations between the US and UAE governments on whether the Pentagon is prepared to allow the UAE to have source codes for avionics software. Release of such sensitive data to a foreign government would be rare but not unprecedented.

Yesterday's missile order is a significant boost for Matra BAe, with the future of the venture a key part of the discussions on restructuring the French and European defence industries.

Lagardère's defence interests, including its 50 per cent stake in the missiles venture, are set soon to be merged with Aerospatiale, the state-owned French aerospace group.

Since Aerospatiale also has missiles interests, the French deal raises a question about the future structure of Matra BAe, with BAe thought likely to want to keep its 50 per cent stake in an enlarged Anglo-French missiles venture.

Premier makes new oil find

By Thorold Barker

Premier Oil, the exploration and production company, has made its fourth discovery of the year in Indonesia, it announced yesterday. The size of the find, in the Pangkah Block off the east coast of Java, will be assessed through appraisal work next year.

Four tests were carried out, with a combined flow, on a restricted choke, of 987 barrels of oil and 20m cu ft of gas per day.

The discovery is 7km offshore and 10km from a pipeline which already carries gas to a combined cycle power station at Gresik.

The company said the plant could have excess capacity and was therefore a potential customer for the gas. Premier's partners in the Pangkah contract are Amerada Hess, Gulf Indonesia Resources and Dana Petroleum.

Charles Jamieson, chief executive of Premier, said that despite the low oil price, this had been Premier's best drill year ever. The company has also made finds in Pakistan and Australia.

RACE TO LEAD WTO MIKE MOORE HAS KEPT AN EYE ON THE TOP WORLD TRADE JOB FOR A LONG TIME

New Zealand convert to free trade who recognises 'liberalisation fatigue'

By Guy de Jonquières

Name: Michael Moore
Nationality: New Zealander
Work experience:
1990-93 Leader of the Opposition
Sep-Oct 1990 Prime Minister, New Zealand
Jan-Oct 1990 Minister of foreign affairs, New Zealand
1988-90 Minister of external relations and international trade

Mike Moore has had his eye on the world's top trade job for a long time. A contender to chair the final stages of the Uruguay Round in the early 1990s, he also thought hard about entering the race four years ago to become the World Trade Organisation's first director-general.

This time, he was off and running even before the starter's gun was fired. The New Zealand politician, who was briefly prime minister before losing the 1990 election, has been pounding the world for months canvassing support. "I've been on the road so much, my citizenship is in danger," he says.

Once a leftwinger, Mr Moore, 49, is a passionate convert to free trade. He believes the WTO's role in opening markets and enforcing fair multilateral rules is crucial to restoring global economic growth and stability.

But he is also a realist. He recognises that much of the world is suffering from "liberalisation fatigue", and that the WTO risks being victimised by a popular backlash against globalisation and its perceived threat to sovereignty.

His first priority in the job would be to build momentum for further liberalisation by strengthening confidence in the multilateral system among developing countries, which comprise most of the WTO's members.

One way would be to hold industrialised economies to existing commitments to open their markets. Another would be to give poorer members the resources and expertise needed to contribute to policy-making and to challenge violations of trade rules in WTO disputes panels.

"This isn't a technical argument, it's an efficiency argument. I tell bigger WTO members that if we want to make progress, we want to arm those guys," he says. "We have got to do something for efficiency, as well as for justice." Although the WTO's secretariat tries to help out, its resources are severely limited.

He is cautious about the chances of getting the WTO's notoriously tight-fisted members to provide more money. But he thinks the gap could be partly filled by co-opting assistance and resources from such bodies as the World Bank and the Organisation for Economic Co-operation and Development.

He hopes closer co-operation with other institutions, such as the International Labour Organisation, could also help defuse such controversial questions as how trade policy should relate to core labour standards and environmental regulation.

Nonetheless, Mr Moore believes that if there is to be another comprehensive trade round, those issues will have to be discussed in the WTO, because domestic pressures in North America and western Europe will force them on to the agenda.

He thinks the answer is to engage more effectively with "green" and "blue" lobby groups – a lesson highlighted by their recent angry protests at OECD negotiations on a Multilateral Agreement on Investment. "The MAI was a wake-up call – this is how *not* to do things," Mr Moore says.

But he recognises that the WTO must also tread a fine line between encouraging more dialogue and transparency, and inviting into its midst pressure groups that would jeopardise its functioning as a government-to-government body.

His other big concern is enlarging the WTO's membership. "This isn't a global organisation yet. You can't run a global economy with two thirds of the world sitting outside it," he says, adding that he would be "desperately proud" to oversee the admission of countries such as China and Russia.

But he is equally adamant that they must enter on the right terms: "Saying 'I want the Nobel peace prize, I've got the big story here, I can stitch up the whole thing by the end of the year', would do nobody any favours."

A similar blend of idealism and realism colours his approach to the rest of the WTO job. "What do I want? I want a trade round that is broad, that helps poorer countries, that gives stimulus to wealthier countries, that fends off the possibility of protectionism.

"I want to end up with a truly global institution with a set of rules. But I don't want those ambitions to get in the way of what is right."

This is the third in a series profiling candidates to succeed Renato Ruggiero as WTO director general.

Indian drugs companies hail patents plans

By Krishna Guha in Bombay

India's pharmaceutical industry yesterday welcomed government plans to reform India's patent laws, saying the move would speed up integration with the industry worldwide.

At a cabinet meeting late on Monday, the government agreed to bring in legislation introducing five-year exclusive marketing rights for products patented after 1995, effective from 2000. The legislation – which will go before India's parliament in the winter session – will also set up a mailbox system of registering these rights.

It marks a new effort to fulfil India's commitments under an agreement with the World Trade Organisation to phase in product patents over a 10-year period to 2005.

The WTO recently ruled that the agreement obliged India to pass legislation on exclusive marketing rights and the mailbox system by April next year.

At present India only recognises process patents. This has spawned a copycat industry which finds new ways to produce patented drugs – a technique known as reverse engineering.

"There was a lot of uncertainty whether India would adopt the World Trade Organisation formula," said Homi Khusrokhan, managing director of Glaxo India. "This is the first public sign that it will."

Exclusive marketing rights – which recognise a company's sole right to sell drugs it has patented – do not offer the full protection of product patents, and will only apply to a small number of products at first.

But executives said the legislation would recognise the principle of product patents for the first time in India, preparing the ground for the introduction of full product patents in the future. "It is a half-way house," said Francis Pinto, chief executive of Nicholas Piramal, one of India's biggest pharmaceutical companies. Meanwhile companies with products patented after 1995 will enjoy a form of protection, albeit limited.

India's government also hinted that legislation on exclusive marketing rights might be followed by moves to prepare the legal framework for the introduction of product patents in 2005.

Yashwant Sinha, finance minister, said the government would also be starting work on bringing the legislation on product patents at the earliest opportunity.

Canadians in China rail pact

By Charles Batchelor, Transport Correspondent

Bombardier, the Canadian railway rolling stock manufacturer, and Power Corporation of Canada are to build passenger rail cars in China under a joint venture agreement with Sifang Locomotive & Rolling Stock Works of Qingdao.

The joint venture company will invest C$110m (US$71.4m) in a 50,000 sq metre plant at Sifang's factory in Jihongtan, Shandong Province. Chinese Railways is to buy 300 intercity rail cars with an option for a further 200 at a total cost, including the option, of C$550m.

The new plant will make a range of rail vehicles including electric powered passenger cars, double-deck carriages and urban mass transit carriages for the domestic and export markets. Production is due to start in mid-1999. Employment is expected to total 1,300 after three years.

Bombardier and Power Corporation will jointly own 50 per cent of the new venture, with Sifang, a subsidiary of China National Railway Locomotive & Rolling Stock Industrial Corporation (Loric) owning 50 per cent.

Loric has 35 plants making rolling stock, locomotives and other industrial products. Bombardier has manufacturing plant in North America and Europe.

US groups poised for Aqaba deal

By Charles Batchelor, Transport Correspondent

A consortium consisting of Wisconsin Central Transportation, Raytheon and Jordanian investors is poised to win a 25-year concession to operate Aqaba Railway Company, the Jordanian government-owned freight railway operator.

Aqaba Railway operates 300km of track, moving phosphate, sulphur and phosphoric acid for the Jordan Phosphate Mines Company, Jordan's largest exporter.

The consortium has been named preferred bidder for the concession, which will involve building two line extensions of 22km and 16km to serve a new mine and industrial complex near Aqaba.

Construction of the extensions is scheduled to be completed by the middle of the year 2001 and will allow for an increase in annual shipments by rail from about 3m tonnes to 10m tonnes by 2002.

Wisconsin, which operates most of the UK rail freight network as well as rail services in New Zealand and Australia, said it would invest $9m over two years for a 33 per cent share in the consortium.

The concession company hopes it will be able to raise debt finance from the Overseas Private Investment Corporation of the US.

LEGISLATIVE PROGRAMME STATE HEALTH SERVICE FACES BIGGEST SHAKE-UP FOR 50 YEARS, REVERSING MANY CONSERVATIVE REFORMS

Hundreds of lords to lose ancient powers

By Deborah Hargreaves in London

The British government will begin to dismantle centuries of aristocratic tradition in the coming year with legislation to reform the House of Lords, the unelected upper chamber of parliament.

Queen Elizabeth confirmed yesterday that hereditary peers – lords who have inherited their titles by virtue of their birth – will be stripped of their right to sit and vote in parliament.

The Queen was speaking at the ceremony that marks the official state opening of parliament for the forthcoming session. She outlined the government's programme in a speech written for her by government officials and approved by ministers.

The state opening of parliament is a ceremony rich with tradition and the only occasion on which elected MPs from the House of Commons sit in the upper chamber with hereditary peers, life peers – lords who have been given their title for their lifetime – and bishops.

The lords were stony faced as the Queen announced a curb in their voting rights as "the first stage in a process of reform to make the House of Lords more democratic and representative".

She also signalled a white (policy) paper to set out arrangements for a new system of appointments of life peers and a Royal Commission – working party – to make proposals for reform of the upper house.

The lords reform bill will form the central plank of the government's legislative programme for the session of parliament that began yesterday and runs until mid 1999. The Queen also mentioned 17 of the 22 bills the government plans to bring forward during that period.

'My Lords and members of the House of Commons ...'

Measures for the coming session

- Improve the regulation of financial services
- Promote electronic commerce
- Modernise the law on immigration and asylum
- Convert Commonwealth Development Corporation to public/private partnership
- Build a modern National Health Service
- Fairness at work: recognition for trade unions
- Modernise local government elsewhere in England
- Reform the House of Lords
- Elected mayor and assembly for London
- Reform benefits for disabled people
- Contributions Agency to be transferred to Inland Revenue
- Tax credits to be widened to "make work pay"
- Fair deals for water charging
- Vote by parliament on age of consent
- Modernise legal aid
- Protect witnesses giving evidence in court

The focus was on modernisation of the country and its institutions, public services and economy, the Queen said. "They [the government] will continue in their drive to raise standards in our education services, to improve care in our health services and to modernise our welfare state upon the principle of work for those who can and security for those who cannot."

The government will introduce a bill to revolutionise the National [state-run] Health Service – bringing in the biggest changes for 50 years. The legislation will abolish many of the reforms introduced by the Conservative government 10 years ago, which established an internal market putting hospitals, doctors and nurses in competition with each other.

There will be a green paper – a consultative document – on enhancing the status of teachers and introducing performance-related pay. The government also plans important bills on welfare reform and trade union rights at work for this session, the Queen said.

Welfare reform will concentrate on disability benefits, pensions for those on lower incomes, widows' and widowers' benefits and tax credits for low-wage earners with families and for disabled people.

The Queen also pointed to reforms of the legal system to modernise youth courts and give greater protection to vulnerable witnesses in criminal cases. There will also be changes to legal aid, which offers funds for poor people to fight criminal cases.

A controversial measure announced in the Queen's speech is that parliament will be given the right to vote on lowering the age of consent for homosexual men to 16. Other bills include legislation to set up the Scottish parliament and Welsh assembly, modernise local government, establish regional development agencies and set up a Greater London authority with an elected mayor.

A bill will also be introduced to reform the law on immigration and asylum, including reform of the appeals system and new support arrangements for asylum-seekers.

FOREIGN POLICY

EU must 'meet concerns of our citizens'

By Deborah Hargreaves in London

The government will work to ensure "that the EU policies and institutions meet the concerns of our citizens", Queen Elizabeth said in setting out foreign policy priorities.

The government's aim is to show Britain to be at the forefront of European Union reforms and the international fight against terrorism.

She pointed to the "historic challenge" of EU enlargement and, in particular, reform of the common agricultural policy and structural funds.

The Queen stressed the government's commitment to promoting economic reforms with EU partners to stimulate growth and employment. She said the government will continue to encourage preparations in the UK for the introduction of the euro in other EU countries.

A bill will be introduced to convert the Commonwealth Development Corporation into a public-private partnership as part of the government's drive to tackle global poverty and promote sustainable development. This is aimed at attracting private money to development funding and increasing investment in the poorest countries.

A House of Commons committee has warned that the sale of a stake in the corporation should be delayed until the case for increased equity investments in developing countries can be demonstrated. But the Queen signalled the sale of a majority shareholding in the corporation after it has been registered as a public limited company. Industry analysts estimate the sale could net £500m ($840m).

The CDC is the government's main vehicle for direct investment in developing countries, channelling £1.6bn into more than 400 enterprises in 54 nations. The government says it wants to use proceeds to help meet its target of halving world poverty by 2015.

Strong defence arrangements are another priority, the Queen said. Discussions to make the EU's foreign and security policy more effective will continue.

"Though Nato is and will remain the conrnerstone of European defence, the government encourages the debate about how Europeans can do more to share the security burden in Europe and further afield," the Ministry of Defence said in notes accompanying the Queen's Speech.

The government stressed its commitment to ensure co-operation between Iraq and United Nations' weapons inspectors. The fight against terrorism and serious crime at home and abroad will continue with a consultation document to be published soon with proposals for permanent, UK-wide legislation to combat terrorism. The government will also continue its "leading role in protecting the environment, including the global climate", the Queen said.

● The immigration and asylum bill aims to speed up the handling of claims for political asylum with tougher rules to deter economic refugees and inadequately documented passengers from seeking to enter Britain, Simon Buckby writes. The bill will also introduce new welfare and housing arrangements to support asylum seekers awaiting a decision on their claim.

'My husband and I . . .': Queen Elizabeth, with Prince Philip sitting at her side, receives the speech written for her by the government from a heavily bewigged Lord Irvine, the Lord Chancellor (head of the judiciary in England and Wales) PA

COMMERCE

Electronic signatures to be given legal force

By David Wighton and Paul Taylor

Electronic signatures will be given legal force under a package of changes designed to promote electronic commerce.

Existing laws that require the use of paper signatures will be revised to give equal status to electronic identification. The electronic commerce bill will introduce a system of voluntary licensing for companies providing electronic signatures and encryption services. It will also determine what liability such "trusted third parties" would bear for any losses that might arise.

The government believes that the changes will boost confidence in electronic communication and stimulate the use of internet for commercial transactions.

Paul Mountford, UK managing director of Cisco, the networking equipment supplier, described the proposals as "very positive".

However Andrew Fleming, director of regulatory affairs for Cable & Wireless Communications, was more cautious. While welcoming the move he urged the government "to recognise that excessive regulation will stifle growth and blunt the UK's competitive edge in this new market".

There are also likely to be privacy concerns over the powers given to law enforcement agencies to intercept and decode electronic communications. But the government insisted yesterday the existing powers would merely be transferred into the digital world and not increased.

In a consultation document to be issued in the next month, the government will ask for views about liability for losses. There are concerns that if the signature and encryption providers had unlimited liability it would be a significant disincentive to enter the market.

Dick Emery, group electronic commerce manager at ICL, the UK-based computer services group, said: "Liability for licensed trusted third parties has yet to be clarified and would have a critical effect on the future success of e-commerce in the UK."

CITY OF LONDON REGULATION SYSTEM COULD BE BROUGHT INTO LINE WITH THAT OF US

Watchdog to plan open disciplinary process

By Jane Martinson and George Graham

The Financial Services Authority, the City of London regulator, is to lay out plans for making its disciplinary processes more open in response to criticism of the unfettered powers it will be given by new legislation.

The financial services and markets bill, which will give the FSA power over the entire banking and investment industry, will go before parliament in this session but is not expected to pass into law until 2000.

Any move to increase transparency could bring the UK system more into line with the US regulatory regime. The US Securities and Exchange Commission, for example, publishes more details about its disciplinary hearings.

Stephen Byers, a Treasury minister, said the draft bill would go through a special committee before the usual parliamentary stages.

The government then expects to seek all-party agreement to carry the bill over at the end of the current parliamentary session, instead of expiring as would traditionally have happened.

One of the most controversial areas of the bill has been the sweeping disciplinary powers given to the FSA. The authority will attempt to answer some criticisms in a consultation paper to be published in the next two weeks. It is intended to address concerns that the FSA's powers contravene the European Convention on Human Rights.

The plans, which could lead to the public hearing of both sides of an appeal, for example, could meet resistance from a City used to a regulatory system that works in secrecy until a final decision is reached.

The consultation paper may suggest that investigations are publicised, although the FSA indicated this would have to be handled sensitively.

Phillip Thorpe, head of enforcement at the FSA, said the authority was keen to solicit views on the issue. "We are keen on pursuing as much openness as possible. We want confidence in our process with consumers and the public understanding what we are doing," he said.

Passage of the Financial Services Act, which set the framework for the regulation of the financial industry, took many months of parliamentary work and some regulators had worried that the new bill might be dropped from the current session to allow more time for consideration.

But Mr Byers said: "Regulation of financial services in this country has been long overdue for an overhaul."

The FSA already has the powers of the old Securities and Investments Board, which included supervision of organised exchanges. In June it took over responsibility for supervising banks from the Bank of England, the UK central bank.

Food standards legislation shelved

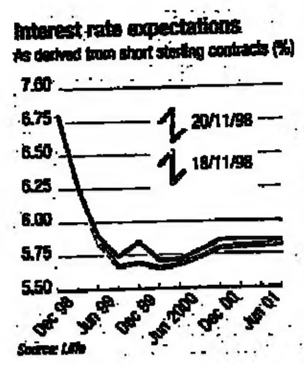
Supporters of an independent food standards agency said they were disappointed the Queen's Speech had confirmed the shelving of legislation to set up an agency, **John Willman and George Parker write.** Nick Brown, agriculture minister, will today set out a timetable for publishing a draft bill and interim arrangements until the agency opens for business. But this is unlikely to be before 2001.

"It is extraordinary that, at the same time as the BSE inquiry is highlighting deficiencies in the current system, this potential breakthrough in consumer protection legislation has been put on the back burner," said Ruth Evans, director of the government-funded National Consumers' Council. The agriculture ministry confirmed that a draft bill would be published "in due course" with three other draft bills unable to find a slot in this session.

NEWS DIGEST

COMPUTER 'BOMB'

Millennium fears hit interest rate futures



Interest rate futures contract prices have started to be affected by fears that trading in money markets will be disrupted by the so-called millennium bomb. Last week, the short sterling contract – which shows what traders expect UK short-term interest rates to be in the future – suddenly started to show a marked upward blip in expected rates at the end of next year. The demand for cash traditionally increases at the end of the year as many smaller financial institutions ask larger banks to extend outstanding loans at the same time. But big banks may be unwilling to lend in the final days before the millennium, fearing trades will fail because of computer problems caused by the inability of older systems to recognise the new date. The two forces would push up the price of money – the interest rate.

Until last Friday the expected path of UK interest rates showed a smooth downward curve which bottomed out at around 5.75 per cent towards the end of 1999. But now the curve blips up sharply to around 5.9 per cent in December 1999, before falling back three months later. "There was a rumour around the markets last Friday that a US bank had refused credit to a smaller institution over the turn of the year 2000," said Philip Shaw, chief economist of investment banking group Investec in London. "This got the markets in the UK worried and they started to price in millennium risk. A similar blip has been seen in German futures prices for some time." **Alan Beattie, London**

CITY OF LONDON REGULATION

Stockbroker ordered to close

Seligmann Harris & Co, a London stockbroker, has been ordered to cease trading by the Securities and Futures Authority after one client, an offshore arbitrage fund with disclosed stakes in several UK listed companies, failed to meet its obligations. The intervention order issued yesterday by the regulator appears to end the story of a firm which was briefly in the limelight in the 1980s when it acted for the US arbitrageur Ivan Boesky during the Guinness affair.

The SFA said it acted after Seligmann Harris informed it that a client had failed to meet its obligations. The client, The Bulldog Fund, is registered in the British Virgin Islands. The order said there were grounds to believe Seligmann Harris might not be fit and proper to carry out investment business and that it had committed acts of misconduct.

Seligmann Harris, which has about 50 clients, had no comment. Apart from Bulldog, clients' total exposure is believed to be in the range of £1m to £2m ($3.3m). Filings with the London Stock Exchange describe Bulldog as a "discretionary investment client of Seligmann Harris".

In the mid 1980s, Robert Harris, the firm's senior partner, was a shareholder in Cambrian and General Securities, the UK investment trust controlled by Mr Boesky and intended by him as a vehicle for engaging in UK arbitrage. **Clay Harris, London**

BUSINESS NETWORKS

Clustering 'may not work'

Peter Mandelson, chief industry minister, will find it difficult to emulate the business networks and clusters that helped create economic hotspots such as California's Silicon Valley, new research suggests. Mr Mandelson, who recently visited the US, aims to put "clustering" strategies at the heart of a shake-up of UK regional industrial policy. The idea is that groups of companies share information, technologies and embark on joint ventures. There is a question, however, over how successfully public agencies can create them.

Robert Huggins, of Cardiff University's centre for advanced studies in the social sciences, surveyed 267 companies in business networks in England and Wales. Functioning networks consisted, on average, of seven companies. Only a small minority reported positive changes: 15 per cent achieved higher turnover, 19 per cent higher productivity, 12 per cent lower costs. But 43 per cent considered the initiatives of no value in improving competitiveness and only 17 per cent reported improvements in their capacity to innovate. Mr Huggins said: "Jobs created by the networks cost an average £12,235 each in public expenditure, above the general level for small business initiatives but cheaper than the £10,000-£25,000 cost of jobs created by European Union regional aid." **Brian Groom, London**

CAR INDUSTRY

BMW talks approach deadline

Talks between BMW's Rover offshoot and trade unions could go close to deadline as the dispute over Saturday shifts and overtime pushes them closer to the end-November limit set by BMW. But while uncertainty continues over up to 3,000 job losses and £1.6bn ($2.6bn) of investment, Rover and the TGWU general trade union said no final agreement had been reached and they could not be sure of a deal by the end of the week.

"We still intend to end by the end of the month, but that takes us through to Monday," said a union official. **Juliette Jowit, Birmingham**

Nissan factory escapes car industry's 'cultural hangover'

The Japanese manufacturer's English plant has reached the peak of Europe's productivity league, **Chris Tighe** reports

Talks over working practices between unions and BMW's Rover offshoot have focused attention on the pressure for greater productivity in the UK car industry if it is to compete in other countries.

BMW cites a productivity gap of about 30 per cent between Rover's operations in England and its southern German plants, where shop floors have been transformed by flexible working without extra pay for working at weekends.

But Nissan's UK operation in north-east England, Europe's most productive car plant, has improved its performance while retaining a conventional structure of extra pay at weekends.

"Any fool can get a significant proportion of volume through; getting it all through is the trick," says John Cushnaghan, plant deputy managing director.

Missing a target is not just management's problem. "Everybody takes a defect personally," says Craig Douglas, a supervisor in the engine shop. "We lay it on the line that it's hard work, they probably haven't ever worked as hard before."

Professor Garel Rhys, director of the Centre for Automotive Industry Research at Cardiff Business School says greenfield location is the key advantage enjoyed by Nissan and its fellow Japanese carmakers – Toyota and Honda – at their UK plants.

Such a site gave Nissan a clean sheet in terms of physical infrastructure, supplier relationships and working methods – as well as in recruitment of motivated, young personnel.

The Japanese model is based on trust and empowerment of the workforce, says Prof Rhys. "The rest of Europe claims to have learned the Japanese system but what they are often doing is intensifying the ability of management to manage by a top-down system."

Nissan's first priority when it began production in England in 1986 was not productivity, says Mr Cushnaghan, but quality.

Once workers had absorbed the philosophy of "building in" quality – rather than inspecting and rectifying – the plant began a series of campaigns to raise productivity and achieve world-class status.

Since 1984 £1.5bn has been spent at the site, creating a highly automated plant laid out for maximum efficiency, with minimal stock holdings and just-in-time supplies delivered direct from component suppliers. Close relationships with suppliers, aimed at raising productivity and cutting costs, underpin the plant's success. Once parts reach the factory floor they enter the process of improvement by workers. Each department has a self-funding *Kaizen* (continuous improvement) unit. "There are always ideas coming in," says Bill Turner, supervisor of the engine shop's *Kaizen* department.

Mr Turner and Mr Douglas believe freedom given to supervisors – who interview, select and organise their workers – is a key factor in the plant's high productivity.

Nissan's Sunderland workforce is ageing because of low turnover; average shop floor age is now 29, against 24 in the early 1990s. Mr Cushnaghan says: "Age isn't as important as attitude."

An Economist Intelligence Unit report said the Sunderland workforce averages 98 cars per employee per year; its nearest European rival, GM's Eisenach plant in Germany, averages 77.

Mr Cushnaghan, a former Rover man who left his job as plant manager for Nissan's start-up, says it would have been more difficult to achieve such productivity in an older plant because of the "cultural hangover" of resistance to change. "That culture is an immense drag on a company's ability to make progress," he says. "Here, because we created the culture from day one, that drag doesn't exist. This place is full of change."

PEACE AGREEMENT AHERN VOICES FRUSTRATION OVER WEAPONS DEADLOCK

Irish premier steps up pressure on republicans

By John Murray Brown in Dublin

Bertie Ahern, prime minister of the Republic of Ireland, yesterday stepped up pressure on the Irish Republican Army to start disarming.

He made clear in the Dáil, the republic's parliament, that refusal to "decommission" was now the only obstacle blocking the progress of the Good Friday agreement.

"We are at a stage where we have moved on everything other than one issue – decommissioning," he said. "I would hope in the cool light of day that people would see that was the only issue and the only one holding up the other measures going live. From my point of view, it would be an entirely unreasonable position for people not to give way and allow that blockage to be moved."

His comments – which for the first time firmly blamed the stalemate on Sinn Féin and the IRA – come ahead of Tony Blair's historic visit to Dublin when the UK prime minister will become the first British politician to address the joint houses of the Irish parliament.

Mr Blair is to hold meetings with all Northern Ireland political parties today, before moving to the republic on Thursday. The Ulster Unionists, the largest pro-British party in Northern Ireland, are pressing Mr Blair to use the opportunity to give a clear call for the IRA to start the process of decommissioning.

Mr Ahern angered unionists at the weekend when he said he saw "an irresistible momentum" to the moves to a united Ireland.

Mr Ahern told the Dáil yesterday he had no apology for his comments, which he said encapsulated the age-old aspiration of many Irish people.

Unionists are likely to want to hold Mr Blair to his written undertakings during the final stages of the negotiations, that Sinn Féin would be expelled if no progress has been is made on the arms issue after six months.

Seamus Mallon, deputy first minister in the Northern Ireland administration, said yesterday there was "a remarkable urgency" to make progress.

He said there were indications of an internal debate within the republican movement over the decommissioning issue.

Mr Mallon is deputy leader of the moderate nationalist Social Democratic and Labour party.

But Mitchel McLaughlin, the Sinn Féin chairman, yesterday repeated that Sinn Féin had no sway over the IRA. His party's demand to be included in the executive was based solely on its electoral mandate.

Two charged after cigarette seizure

Two men charged in connection with the biggest-ever seizure of cigarettes and alcohol in Northern Ireland were remanded on bail when they appeared in court in Belfast yesterday. Customs officers seized nearly 11m cigarettes and 14,400 litre bottles of vodka yesterday. A truck was tracked to Northern Ireland after the load was discovered when it was landed at the port of Immingham, in north-east England, from a vessel from Rotterdam. The truck was allowed to proceed across England and be shipped to Northern Ireland. It was driven to a shed where it was seized by customs officers and police. Almost 10m more cigarettes were found in nearby sheds. The men were charged with evading more than £158,000 duty on the drink and cigarettes.

President Mary McAleese of the Republic of Ireland yesterday visited the English city of Liverpool, unveiling a monument to victims of the Irish famine. She said the famine "skewered and embittered" relationships between the UK and Ireland which were now "friends and colleagues" Mercury

Northern Ireland police reform requires balancing act from Patten

The former Hong Kong governor has the task of producing a politically impartial but effective force, says **John Murray Brown**

To the outsider, Chris Patten's chances of winning cross-community support for changes to the Royal Ulster Constabulary, the Northern Ireland police force, must look increasingly bleak.

The debate has become increasingly hysterical. In the past week, Mr Patten has been forced to deny reports that the RUC is to be disbanded. Mo Mowlam, chief Northern Ireland minister in the UK government, was forced to issue a similar reassurance after an anxious Police Federation chief suggested the promise of reform was being used to persuade the Irish Republican Army to "decommission" its arms.

But many observers believe that once the rhetoric is stripped away there is much less between the parties. Mr Patten, the last governor of Hong Kong, has been asked to produce a police service which is impartial and effective. It also has to be affordable.

David Cook, a former chairman of the Northern Ireland police authority, believes there are three main areas – the force's religious composition, its organisational structure and how it is to be accountable. Only the radical introduction of quotas to increase the numbers of Roman Catholics will redress the religious imbalance, he believes.

"For too long successive governments have failed to tackle this problem. Action is what is now required," he says. Any such move would require changes in the fair employment legislation which expressly prevents "positive discrimination". But Mr Cook believes quotas would receive cross-party support.

Nationalist politicians say the force's unionist ethos will also have to change if it is to attract Roman Catholics.

The government has already said RUC officers should declare their membership of the Protestant Orange Order. Mr Cook says police officers should be banned from membership.

As to the RUC name, even moderate nationalists believe the "royal" should be dropped to reflect the existence of two communities with different national allegiances.

One solution might be to create a two-tier system by establishing a local police service – probably with a different name. Instead of forming new regional forces – as the moderate nationalist SDLP argues – Mr Cook envisages there could be greater links at sub-divisional level, with officers reporting to community representatives on police liaison committees.

Under this model the RUC would continue to provide the expertise to fight drugs and organised crime – increasingly on a cross-border basis in liaison with the Garda Siochana, the Republic of Ireland's police.

John Brewer, lecturer in sociology at Queens University, Belfast, says: "There is plenty of room for manoeuvre. The question is to what extent there is support for the RUC in the nationalist community. It depends if abolition can be marginalised as just Sinn Féin's idea."

Many observers believe that once the rhetoric is stripped away there is much less between the parties

Perhaps the biggest challenge for Mr Patten will be to create new structures of accountability for the police in a community which has little trust in the existing arrangements. The chief constable, head of the police, has operational independence.

His budget is set by the police authority but his overall responsibility is to the UK government.

Mr Cook believes the choice is whether the chief constable be held in check by a more effective – and a political neutral – police authority. This is broadly the model in the UK mainland.

Alternatively, if policing powers are to be devolved to the new assembly, should the police report to a local minister of justice, as happens in the republic?

Here the parties diverge. Sinn Féin wants to see a board of commissioners made up of human rights lawyers and representatives of the two governments. The moderate nationalist SDLP has long boycotted the police authority and favours the Irish model of a justice department.

If Mr Patten can get this issue right many experts believe the other difficulties will fall into line.

Start-up of beef exports 'to be delayed'

By Rahul Jacob in London

There will be a delay of at least three months before British beef exports can resume as the industry meets conditions laid down this week, industry sources said yesterday.

Monday's move by European Union farm ministers to end the ban included a compulsory cull of 4,000 offspring of BSE-infected cows born after August 1 1996, to eliminate the risk of maternal transmission of the disease. About 400 such animals have already been slaughtered as part of a voluntary cull.

The decision to end the ban came with several other conditions, though these were widely anticipated. Only deboned beef and products from animals slaughtered between six to 30 months and born after August 1 1996 will be allowed to be exported.

Before the ban was imposed in March 1996, a high percentage of the UK's £516m ($870m) annual beef exports was of beef from cattle older than 30 months. "The lifting of the ban is highly restrictive," said Peter Scott, general secretary of the Federation of Fresh Meat Wholesalers.

The UK industry must also certify that the mother of the animal lived for at least six months after the birth of the animal to be exported. This will require searching through databases to provide what the European Commission calls "verified positive official evidence" that the mother lived that long.

Abattoirs also face strict conditions before they are allowed to export beef. Only six to 10 abattoirs are believed to have expressed an interest in exporting beef now that the ban has been lifted. This compares with about 60 to 70 that were exporting beef before the ban was imposed in 1996.

PROFILE ROLF MEYER, CLARIANT

Prize Ram champions new breed

The man chosen to run the chemicals group is in a hurry to break the mould of the old-style Swiss manager, says **William Hall**

They call him Ram. Rolf A. Meyer, the man chosen to run the world's biggest speciality chemicals company, takes his nickname from his initials. But the name also sums up a man in a hurry, perhaps too much of a hurry, to stamp his mark on the industry.

It is only just over 18 months since Mr Meyer led the spin-off of Ciba Specialty Chemicals from Novartis, the Swiss pharmaceutical giant. Completed in nine months, it was hailed as the "demerger of the year" by Corporate Finance magazine.

Mr Meyer, chairman of Ciba and the architect of the deal, was seen as typifying a new breed of Swiss manager. He has been determined to transform the cosy world of big business by introducing a financial performance-based culture into a rather sleepy company whose reputation rested on strong technological competence and innovation.

He broke with tradition by refusing to appoint any Swiss bankers to Ciba's board, because of worries about conflicts of interest. He also asked his top managers to invest a year's salary in Ciba shares.

The shares jumped nearly 70 per cent in their first nine months. Less than a year after going public, Mr Meyer had won an £1.4bn ($2.4bn) hostile takeover battle for Allied Colloids, a UK leader in water treatments.

Now he is merging his company with Clariant, its slightly bigger rival, which is still digesting its acquisition of Hoechst's speciality chemicals business – a deal that tripled its size. The result will be the creation of a speciality chemicals group more than twice the size of Imperial Chemical Industries.

However, the stock market's enthusiasm has dimmed in recent months. Mr Meyer is generally reckoned to have paid too much for Allied Colloids, his first big takeover, and the collapse in the first-half profits of Ciba's performance polymers division has raised questions about the quality of Ciba's financial early-warning systems.

This is particularly galling for Mr Meyer, who built his reputation as a successful "numbers man" during his four years as chief financial officer of Ciba-Geigy.

Ciba's shares, after last year's surge, have fallen by more than a third from their peak. Some analysts believe that without the merger Ciba would have earned less in 2000 than it did in 1997, its first year as a public company. Ciba's gearing has soared to more than 150 per cent, thanks to the expensive Allied Colloids acquisition, and Ciba has not had long enough to justify the management's claim "to have a strong track record in delivering results".

> **'If we had delayed, the companies would have gone in different directions'**

Mr Meyer emphasises that the merger is not a short-term defensive move but makes "excellent strategic sense". Although both companies are relative newcomers to the stock market, they are remarkably close, not only geographically – their headquarters are three miles apart – but also in history. They grew out of the original dyestuff businesses founded more than 100 years ago by Ciba and Sandoz.

One investment banker said it was "the most obvious deal left in Switzerland". Looking at the history of the two companies, and the similarity of their product base and technology, it is in some ways surprising that they did not get together at the same time as their former parents merged their pharmaceutical businesses into Novartis in 1996. It would have saved a lot of investment banking fees.

"As soon as we started talking it became quite clear that there were significant advantages in the merger," says Mr Meyer. "We had to act now; if we had delayed the companies would have gone off in different directions. We could not have come back to it."

Nevertheless, the stock market still needs convincing that Mr Meyer, 55, is the right man to lead the world's biggest speciality chemicals company into the next century.

In addition to being chief executive he will be vice-chairman of the supervisory board of the enlarged group, which makes him the natural successor to Rolf Schweizer, Clariant's chairman. Mr Schweizer, 68, will be less than a year away from retirement by the time the merger is completed in the second half of next year.

A year ago Mr Meyer was preaching the benefits of breaking up big companies. Splitting out Ciba Specialty Chemicals from Novartis had given Ciba's management a clear strategic focus, unleashed fresh energy among managers and enhanced shareholder value. He did not think that the speciality chemicals industry would spawn industry giants because it was "difficult to generate synergies by broadening the sphere of activity".

Now, faced with a sharp downturn in demand for many of Ciba's products, he seems to be singing a slightly different tune. "Size has advantages in global selling, purchasing, R&D and administrative support. But it is also very important that at individual business levels we have small, flexible action-oriented units," he says.

He remains a great believer in performance-based management cultures. Seven years as head of finance for Ciba-Geigy's US operations in the 1980s exposed him to a school of hard-nosed US managers. He was the first chief financial officer of a Swiss multinational to launch a hostile takeover bid.

He has not shrunk from tough action. Karl-Gerhard Seifert, 53, chief executive of Clariant, and Hermann Vodicka, 56, Ciba's chief executive, both well respected in the industry, have lost their jobs as a result of the merger.

Mr Meyer admits it is "a bit unfortunate", but says the enlarged group could not afford two chief executives, or even one reporting to the other. "It would have been very dangerous," he says. He has solved the problem by making himself chief executive.

Meyer: determined to transform the cosy world of big business Brendan Corr

INFORMATION TECHNOLOGY COMDEX ROUND-UP

Big push for pens and the paperless office

Roger Taylor find some old ideas resurfacing at the annual computer fair in Las Vegas

Las Vegas in November is a time to celebrate the latest and best of new technology at the annual Comdex computer fair. Last week once again brought the industry out in full force to dazzle visitors with bright ideas for the future.

However, the excitement was tempered by a strong sense of deja vu around many of the products on display. "The paperless office" and "pen-based computing" were making a strong comeback at the show – ideas that have been around for years yet have never quite cracked the market.

The result served as a reminder of the difficulty of turning good technology into successful products and created a sense of frustration at the time taken for some bright ideas to break into the mass market. The big hurdle in many cases is nothing to do with technology but is more a problem of marketing and industry organisation.

Bandwidth is the most telling example at present. The internet, which is now the single biggest driver of the high-tech industry, can never deliver what consumers expect of it until households have computer connections capable of delivering tens of megabytes per second, compared with the current paltry rates of a few thousand bytes. The technology is by and large in place to do this. Yet putting it all together in a package and at a price that will appeal to consumers is proving an organisational challenge for the industry.

The good news is that big steps forward were announced at the show. Compaq, the leading manufacturer of personal computers, introduced a new range of low-cost PCs equipped to work with broadband networks such as cable and DSL. 3Com, the networking company, said it was working with Compaq's rivals to allow them to deliver a similar offering. In both cases, the computer companies have teamed up with the modem makers and the telephone and cable companies to ensure customers have everything they need to hook up to the high-speed internet.

Pen-based, hand-held computing generated much excitement at the show, but is a subject that can create a sense of weariness among industry observers. It is an area that has seen far more failure than success over the past 10 years as companies have struggled to present it in an appealing way.

Here again, however, there was evidence that the industry was at last close to cracking the problem. There were a large number of hand-held devices, capable of turning on and off instantly (who wants to wait while a machine boots up to look up a phone number?), with good sized, full-colour screens and usable keyboards, but weighing little more than a couple of pounds. They can be used for e-mail, diary use and writing memos, and are being offered for about $300.

> **The idea today is to combine scanners with copiers and fax machines**

Perhaps the most innovative was the Clio from Vadem, a company which until now has limited itself to manufacturing machines under other company brand names. Its design allows it to be used both as a laptop and like a pad, with the keyboard tucked behind the screen. You can write freely across the screen with the stylus and the machine is remarkably accurate in converting this into type. Alternatively, it can simply record your scribbles as they are.

Equally impressive were the Journada from Hewlett-Packard and the Mobilon Pro from Sharp. Combine these with the AirCard from Sierra Wireless – a PC card that gives your hand-held a wireless connection to the internet – and at last the long-promised ideal of truly portable computing is being approached.

Voice recognition was another hot topic at Comdex – another technology that to date has largely failed to match up to consumer demands or expectations. Reliability, however, is improving. Established players such as Philips and Dragon showed off dictation programs that seemed reasonably competent at taking down normal speed speech. Also, companies are finding more uses for it. Motorola was displaying its VoxML technology for accessing the internet by phone. The system allows you to phone up and get information, such as sports scores or stock quotes, by talking directly to a computer.

A start-up company, SoHoTalk, showcased its new product, the Say Do Assistant. This is a software program for using voice commands to control your PC. You can tell it to find somebody's contact details, dictate a message and then ask it to send a message to that person. "Actually have a conversation with your computer," the blurb reads. It is hard to judge whether this is the ultimate nerd's gimmick or the start of a revolution that will put hundreds of secretaries out of work. But at just $149 it is tempting to try it out.

Lastly, there was the revival of the paperless office – once again an idea that has fallen foul of almost total customer apathy. Yet Xerox, Hewlett-Packard and Panasonic presented new ideas to try to breathe new life into it.

The idea today is to combine scanners with copiers and fax machines, so that pieces of paper can be easily converted into computer files, sent around a network and then converted back into paper again.

Hewlett-Packard showed off a fax machine that could also send the document as an e-mail. Panasonic displayed a machine that prints colour documents from a computer, scans documents into the computer or simply makes photocopies.

Xerox presented even more radical ideas about how companies should manage documents, demonstrating the ease of producing small numbers of high quality, full colour documents with laser printers. The company raised the possibility that publishing companies may soon be able to scrap long print runs and simply produce books and documents as and when needed.

JOHN KAY

Crisis, what crisis?

While there is a loss of confidence in the European social model, a visit to Denmark suggests the system serves its people well

Dear Linda,
Greetings from Copenhagen. It is 8.30am and I am sitting in my room on the 34th floor of the Hotel Scandinavia. The sky is blue and clear and views over the old city and across the Kattegat to Sweden are stunning.

We are here to discuss the crisis facing the European social model. The crisis is not immediately evident. From the moment of arrival at Kastrup Airport, you are overwhelmed by a sense that Denmark is efficient, rich and comfortable.

There is no sign of the economic and social tension immediately evident when you arrive at Kinshasa, Bangkok – or indeed New York. Both the natural and the urban environments are enviable. The quality of public services, particularly education, is exceptional. By any criteria, Denmark is a pleasant place to live. True, the language is challenging. Reassuringly, though, the taxi drivers speak English, which is rarely the case in New York. And the facts and figures support these superficial impressions. In 1996, incomes per head in Denmark were around 20 per cent higher than in the US (the rise in the dollar since then will have reduced this differential).

Still, we must get down to work and discuss the crisis. Taxes in Denmark are nearly 60 per cent of national income, the highest national figure of any country in the world. The labour market is heavily regulated. Even in the private sector, more than 90 per cent of the workforce is in trades unions. They work closely with employers and government in one of the most corporatist of European economies. It is well known that this combination is restricting growth, stunting innovation and damaging employment.

But what is well known is not always true. The Danish economy did experience a difficult phase in the 1980s. During the "blue period" – a decade of Conservative government – there was some restructuring and reform. But since the Social Democrats returned to power in 1993, Denmark has grown at the same rate as the US, and well ahead of the world average.

But what is most well known is the devastating effect on employment and unemployment of the European social model. And unemployment is indeed higher in Denmark than in the US. The gap narrows when you adopt the standardised basis created by the OECD – 6 per cent in 1996 as against 5.4 per cent in America. However, the OECD standardisation does not adjust for differences in the prison population. Since there are 1.7m people in jail in the US, and only just over 3,000 in Denmark, this is important. If we add the proportion of the population incarcerated to the proportion unemployed, 6.6 per cent of Americans were out of work in 1996 and 6.1 per cent of Danes.

There is a simple explanation for the difference in unemployment. Young men who in Denmark are at home watching television and desultorily looking for employment are in jail in the US and therefore out of the unemployment statistics. Since there is much less crime in Denmark than in America, it is not clear that the Danes have got it wrong.

But there is a strong feeling on the part of the Danes that they have indeed got it wrong, which is why we are all at this conference. Whether or not there is indeed a crisis in the European social model itself, there is certainly a crisis of confidence in the European social model. For many of those who attend meetings such as these, the existence of the problem is self-evident and only the means of tackling it needs to be discussed. We are told that the era of the high-spending state, in which business is governed by both explicit and consensual regulation, is clearly over. And that the day of the stakeholder company is at an end. The European social model is at best a transitional form of capitalism, a staging post on the route to a full market economy.

And yet the undeniable fact is that, if you are looking for the world's most successful economies, "small west European state" is more or less the best predictor you can find. Denmark ranks along with Norway, Switzerland, Austria and Luxembourg in any list of countries with high living standards. And all these countries have other common characteristics: high, almost stifling, levels of social cohesion and interlocking networks of corporations, employers and workers' organisations and the state – the principal features of the supposedly defunct European social model.

These examples attract little serious attention. The shelves of the Said Business School library groan with volumes about *chaebol* – Korea's conglomerates – and *keiretsu*, the Japanese business groupings. The books on China stretch the length of the Great Wall. But you will look in vain for titles like *Great Entrepreneurs of Norway*; *The Coming Economic Powerhouse – Denmark*; *Iceland – Europe's Tiger Economy*. This is not because we have not bought the books. It is because no one has written them. When our students go on study trips they do not fly to Luxembourg or Finland. And when the business elite meets in Davos, they appreciate Switzerland for its snow, sun and scenery, not as the world's most successful economy.

Perhaps some rethinking is in order. The Danes are anxious to participate in fashionable discussion of the crisis facing the European social model. There is a deep-seated angst in the Danish character. This is the country of Hamlet, Hans Christian Andersen and Carlsberg Special lager. They worry about whether they deserve their good fortune, and are fearful of whether it will continue. But beneath it all they know that their system works. And they do not need lectures about their crisis. It is time to go back to London.

John

The author is the Peter Moores Director of the Said Business School at Oxford University and a director of London Economics. This column appears fortnightly.

صكنا من الاجل

صكنا من الاجل

Betty Comden and Adolph Green have been part of an unofficial mandarinate that, for the past half-century, has ruled over artistic New York. Though their work for movies (*Singin' in the Rain, Auntie Mame*), and the stage (*Applause, Bells Are Ringing*) is never far from view, this season they are having a particularly lively time of it.

They have written a new book for the Metropolitan Opera's Christmas Eve production of *Die Fledermaus*, their 1962 musical *Do-Re-Mi* is to be dusted off at City Center in the spring, and two of their best-known shows have just opened on Broadway: *Peter Pan*, which has its eye on the Christmas crowd; and the 1944 musical, *On the Town*, which has somewhat loftier targets.

On the Town, for which Comden and Green wrote book and lyrics to complement Leonard Bernstein's music, follows three young sailors on a 24-hour shore leave in the summer of 1944, before they are shipped off to sea.

Though the wartime setting gives the story a heightened poignancy, violence and destruction barely shadow the young men's peregrinations; the creators focus instead on Rodgers and Hart's notion of Manhattan as "an isle of joy." The men's mission is to track down a local beauty queen whose photograph they have seen in the subway, and before their furlough is over they bump up against as varied an assortment of New York nuts as have ever rolled across a stage.

This diversity provides George C. Wolfe, the director of the revival, with the ingredients for an eye-opening re-imagining of the piece, but he opts for a fairly straightforward approach, and the result is an evening of only intermittent pleasures. Perhaps Wolfe felt that it was sufficient to update *On the Town's* casting, to make the largely white faces of previous productions more rainbow-hued, and that to offer a more thoroughly revisionist take would be to distort the essentially madcap nature of the material. The decision to play safe, however, provides little more than an occasion for us to hear *On the Town's* many well-known songs.

When this production was presented two summers ago, in Central Park, the show had more justification. To sit outdoors under the moonlight, as the city skyline in the distance made the need for stage sets almost superfluous, was to believe, however down and defeated your day, that Manhattan was the modern world's most romantic of playgrounds. Songs like "New York, New York" and "Carried Away" rode the breeze and stayed in your head for days. And the tickets were free.

The women, not the randy sailors on leave, are the most dynamic, highly-sexed characters on the stage: Jesse Tyler Ferguson and Lea DeLaria as Chip and Hildy

Playing it safe on Broadway

Brendan Lemon explains why this revival of Bernstein's musical 'On The Town' fared better in Central Park

Now that the show has been moved indoors, to the barn-like Gershwin Theatre, and tickets cost more than most second world war workers made in a month, it is more difficult to disregard one's reservations.

Instead of the real Belvedere Castle hovering behind the action, we have a vintage-postcard version of it. Instead of lacklustre choreography by Eliot Feld (the original was by Jerome Robbins) we have lacklustre choreography by Keith Young. And instead of actors speaking loudly, to be heard above real taxi horns nearby, we have actors speaking loudly, ruining any chance of conveying quiet heartbreak.

For while the musical celebrates the exuberance of New York life, it does not neglect the rending sadness that can accompany all the excitement. "Lonely Town," for example, is as aching an urban lament as any American has written, but Wolfe stages it not by placing the sailor singing it in, say, a simple spotlight downstage, but on a gigantic, fully illuminated bridge that is the production's main backdrop. At other times, however, Wolfe is fully capable of suiting staging to mood. "Some Other Time", a quartet coming as the sailors are about to return to ship, is absolutely beautiful.

The cast of this revival is, on the whole, superior to Wolfe's staging. The sailors (Robert Montano, Jesse Tyler Ferguson, Perry Laylon Ojeda) are all quite good, and the comic characters (particularly Mary Testa as the bibulous voice teacher, Madame Dilly) often a delight.

But what verve the show manages to convey comes mostly from its lead actresses – Lea DeLaria as the brassy taxi driver, Hildy Esterhazy, and Sarah Knowlton as the anthropologist, Claire DeLoone. It is yet another of Comden and Green's gifts to have taken a story featuring the randiest of the randy – sailors on leave – and make not the men but their women the most dynamic, highly-sexed characters on the stage.

'On The Town', Gershwin Theatre, Broadway, New York

Modern look at Greek tragedy

THEATRE

A[illegible]STAIR MACAULAY

The Suppliants
Gate Theatre, London W11

Greek tragedy – like the concerto in classical music – is about the tension between one voice and many. The chorus is where it all began, and in the oldest Greek tragedies, those written by Aeschylus (c.525-456BC), the role of the chorus is especially forceful. Of his seven surviving plays, *The Suppliants* begins and ends with the chorus in full flood. Largely for that reason (also because the play is set very early in Greek mythology), it was assumed that this was the earliest and most primitive of plays by Aeschylus to survive. In recent years, however, thinking on this has changed: now *The Suppliants* is considered a mature and sophisticated tragedy; and there is evidence that it may have won first prize in 463 BC (with Sophocles second).

What we have needed, however, is to see it onstage. Aeschylus's reputation in our modern theatre rests far too largely upon his famous *Oresteia* trilogy. The fact that the protagonist of his *Prometheus Bound* is bound to the rock throughout the play was once thought to be a major dramatic problem; but surely this is no problem now for audiences who have seen, in Beckett's *Happy Days*, Winnie up to her waist, and then her neck, in earth; or Beth, in Pinter's *Landscape*, immobile in her armchair. The Gate Theatre – which has built so impressive a record during the 1990s for staging tragedies by Euripides – has now revived *The Suppliants*; and, just as one might hope, it becomes a very different play onstage than on the page: altogether more expressionist and more modern.

The "suppliants" of this play are the legendary Danaids, fleeing back to

The legendary Danaids are fleeing sexual violation and enforced marriage in Egypt to their male first cousins

their native Greece from "cousin-rape" – from sexual violation and enforced marriage in Egypt to their male first cousins. Thanks to the feminism of recent decades, and thanks, alas, to the mass crimes of recent warfare, the threat of collective rape has surely become a far more real and disturbing subject for drama than it would have seemed to readers of Aeschylus earlier in this century. As *The Supploints* has been translated and directed by James Kerr, the central subject of the play becomes the collective psyche of these girls: which reaches a climax of quasi-incoherent hysteria when they are threatened with recapture by the envoys of their cousins.

The skill of Kerr's reading of the play is its restraint. The "hysteria" of these girls is not expressed in wild or loud or uncontrolled language and behaviour. Rather the opposite. When they are under threat, it becomes an effort even to give voice; then their language itself breaks down into ungrammatical shards and isolated words; finally, they become silent and start to approach their oppressors, as if hypnotised out of their sanctuary.

At times, admittedly, Kerr pushes his restraint too far. There are several exaggeratedly prolonged pauses; and the male characters, especially Danaus, are too one-dimensional. But the strength of this production is that the big choral odes are musically conceived, composed by Mick Sands as webs of Eastern Mediterranean vocal polyphony, with lines also spoken by single voices so that the expression hits us on several levels. (The first chorus is commenced in Greek. Gradually, the play shifts into English.)

The greatest challenge in staging Greek tragedy today is in the issue of realising the musical values of the choral writing: and the Gate's staging of *The Suppliants* is primarily a lyrical experience, in which lyricism becomes fraught with the ebb and flow of female hope and despair.

A lyrical experience: Jennifer Knight and Julia Worsley in James Kerr's production Alastair Muir

NEW YORK MET RECITAL

Pavarotti in distress

The 4,000-seat house was packed Sunday afternoon. Anyone who was anyone had to be there. TV cameras were watching. Tickets cost as much as $1,000, post-performance dinner included. Push-button cheers greeted the embattled hero at every slow turn. Eyes cast upward, hands clutching heart, he basked in de rigueur standing ovations at the end. When the great gold curtain finally fell, it trapped the protagonist dangerously in its folds. Undaunted, he emerged beaming to receive onstage accolades from his colleagues, assembled politicos and the proud management. Luciano Pavarotti was back at the Metropolitan Opera.

This was no ordinary garden-variety comeback. Pavarotti, 63 according to most sources, has had his share of troubles lately. He underwent hip and knee replacement surgery this summer, accompanied by rather drastic weight loss. His personal life, soap-operatic by any Italian standard, has become fodder for gossip columnists. His glorious voice isn't what it used to be; nor, we are told, is his glorious exchequer. He has cancelled numerous engagements, including a series of *Toscas* at the Met. His future on the operatic stage is fraught with questions. But here he was, and here he had to be. This was the 30th anniversary of his local debut and his 360th – possibly final – appearance with the company.

Sadly, the tenorissimo did not triumph. In three cautiously chosen acts from three jarringly different operas separated with endless intervals, he performed like an artist in distress at career twilight. He made most of his entrances and exits on the arms of costumed assistants, sat wherever possible, stole sips of water between vocal flights. He sounded uncharacteristically tight and dry, especially at the outset. Long-ringing top tones, a vaunted Pavarotti specialty, were in short supply. He did muster some ravishing *mezza voce* effects, but little that could remind us of his historic bravado with the nine high Cs in *La fille du regiment*. A muted Pavarotti, it might be argued, is no Pavarotti at all.

The not-so-festive festivities began with Act Two of Donizetti's *L'elisir d'amore*, selected no doubt so the idol could deliver "Una furtiva lagrima" one more time. He did so introspectively – everything is relative – and with some effort. Elsewhere, he managed to execute a few jerky dance steps ("Look, Mama, I'm moving!"), and, occasionally reminding himself that this wasn't a concert, offered some grimaces and gestures that might be confused with acting. The surrounding charade was rather awkward. John Copley's cutesy production and Beni Montresor's candy-box flats hardly represent the Met at its best. Ruth Ann Swenson chirped very prettily as Adina, while Roberto De Candia blustered clumsily as Belcore, and Leo Nucci – a baritone straining to impersonate a basso buffo – worked hard as Dulcamara. James Levine seemed distracted in the pit.

Since Act Three of *La bohème* made minimal demands on Pavarotti, the audience could concentrate here on the postcard kitsch of Franco Zeffirelli's overpopulated production. Daniela Dessi came all the way from Italy to sing a slightly shrill mini-Mimi, with Ainhoa Arteta and Dwayne Croft providing stalwart support as Musetta and Marcello. The most powerful contribution to the afternoon came from Dolora Zajick, who gave a tear-out-the-guts performance as Amneris in the Judgment Scene of *Aida*. In the tender valedictory that followed, Maria Guleghina nearly choked on the heroine's ascending pianissimo phrases, but Pavarotti sang Radames with unexpected sweetness, purity and ease. It was little, alas, and it was late.

Martin Bernheimer

INTERNATIONAL

Arts Guide

AMSTERDAM

EXHIBITION
Stedelijk Museum
Tel: 31-20-5732911
www.stedelijk.nl
Bill Viola. 25 Year Survey – A Video Journey: major survey of work by the American video artist. Includes more than 15 installations and 20 video tapes, as well as sketches and notes; to Nov 29

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
The Rake's Progress: by Stravinsky. Conducted by Reinbert de Leeuw in a staging by Peter Sellars. Cast includes Donald McIntyre, Thomas Randle and Willard White: Nov 26, 29

BARCELONA

EXHIBITION
Fundació Joan Miró
Tel. 34-93-329 1908
www.bcn.fjmiro.es
Magritte: an exhibition celebrating the centenary of René Magritte's birth. It contains over 90 paintings and 50 photographs by the Belgian Surrealist, which are grouped into 5 recurrent themes from his work; to Feb 7

CHICAGO

CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
Chicago Symphony Orchestra: conducted by Pierre Boulez in the world premiere of Thomas's Orbital Beacons, and in works by Debussy. With the women of the Chicago Symphony Chorus conducted by Duain Wolfe; Nov 27, 28

COLOGNE

OPERA
Oper der Stadt
Tel: 221-221 8400
Die Vögel: first modern staging for Walter Braunfels's opera. Premiered in 1920, it was banned by the Nazis and largely forgotten until a recent recording. This production is conducted by Bruno Weill and staged by David Mouchtar-Samorai; Nov 27

EDINBURGH

EXHIBITION
Scottish National Portrait Gallery
Tel: 44-131-624 6200
Robin Gillanders: Little Sparta. Photographs of the painter Ian Hamilton Findlay's garden at Dunsyre in the Pentland Hills. Gillanders has been working there since 1993, and the display includes a range of collaborative works – posters, prints and postcards; to Nov 29

HELSINKI

DANCE
Finnish National Ballet
Tel: 358-9-403 021
Giselle: staging by Sylvie Guillem. With sets and costumes by Ramón B Ivars. Conducted by David Garforth; Nov 26, 28

OPERA
Finnish National Opera
Tel: 358-9-403 021
Anna Bolena: by Donizetti. Conducted by Maurizio Barbacini in a new staging by Jussi Tapola, with designs by Anna Kontek; Nov 27

HUDDERSFIELD

CONCERTS
Huddersfield Contemporary Music Festival
Tel: 44-1484-430 528
● Elliott Carter 90th Birthday Tribute: works by Carter, including the European premiere of his Piano Quintet, performed by the Arditti String Quartet and pianist Ursula Oppens; St. Paul's Hall; Nov 27
● Northern Sinfonia: conducted by Thierry Fischer in Simon Holt's Triptych, and Diane Burrell's Clarinet Concerto. With cello soloist Zoe Martlew and clarinet soloist Robert Plane; Nov 26
● Punch and Judy: Music Theatre Wales. Music by Harrison Birtwistle, performed by six singers and 15 musicians. Directed by Michael Rafferty, with a libretto by Stephen Pruslin; Lawrence Batley Theatre; Nov 28

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
London Symphony Orchestra: Sir Colin Davis conducts a series of works by Elgar; Nov 25

Royal Festival Hall
Tel: 44-171-960 4242
Estonian Philharmonic Chamber Choir: with the Tallinn Chamber Orchestra. Tonu Kaljuste conducts work by Estonian composers Erkki-Sven Tuur and Arvo Pärt; Nov 26

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
Boris Godunov: by Mussorgsky. Conducted by Paul Daniel in a new staging by Francesca Zambello, with sets by Hildegard Bechtler. John Tomlinson sings the title role; Nov 27

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
Danish National Radio Symphony Orchestra: conducted by Gennadij Roshdestvenskij in works by Nielsen, Shostakovich, Rachmaninov and Stravinsky. With violin soloist Viktoria Mullova and pianist Viktoria Postnikova; Nov 26
● Sabine Meyer: in works for clarinet by Mozart, with the Camerata Academica des Mozarteums Salzburg conducted by Alexander Janiczek, and bassoon soloist Daniele Damiano; Nov 28

NEW YORK

EXHIBITION
Pierpont Morgan Library
Tel: 1-212-685 0008
Charles Dickens - A Christmas Carol: the manuscript of Dickens's novel is the centrepiece of this holiday exhibition. Also on view are several other items relating to the work; to Jan 3

Whitney Museum of American Art
Tel: 1-212-3272801
Mark Rothko: major retrospective of the American abstract artist, including loans from Europe and Japan. The 100 works on display encompass all phases of Rothko's career, from the late 1920s to 1970, with an emphasis placed on the so-called surrealist and classic periods. The show will travel to the Musée d'Art Moderne de la Ville in Paris; to Nov 29

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
La Bohème: by Puccini. With Julius Rudel conducting and a cast which includes Francesca Pedaci, Gwynne Geyer and Vladimir Grishko; Nov 25

PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Frans Brüggen in works by Schumann and Mendelssohn. With violin soloist Thomas Zehetmair; Nov 25, 26

EXHIBITION
Espace Electra
Tel: 33-1-4284 2360
Photographic Fictions; to Jan 1

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
www.opera-de-paris.fr
The Merry Widow: by Franz Lehár. Conducted by Armin Jordan and with a cast including Frederica von Stade and Hakan Hagegard; Nov 25, 27

SAN FRANCISCO

CONCERTS
Davies Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
San Francisco Symphony Orchestra: conducted by Michael Tilson Thomas in works by Haydn, Shostakovich and Brahms. With piano soloist Vladimir Feltsman; Nov 25, 27, 28

OPERA
San Francisco Opera, War Memorial Opera House
Tel: 1-415-864 3330
www.sfopera.com
Norma: by Bellini. Conducted by Patrick Summers in a staging by Andrew Sinclair, with sets by José Varona. The title role is sung by Carol Vaness; Nov 28

TOKYO

CONCERT
Suntory Hall
Tel: 81-3-3584 9999
Tokyo Metropolitan Symphony Orchestra: conducted by Gary Bertini in works by Mozart. With violin soloist Asako Urushihara; Nov 26

■ TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

Caution to the winds

The stock market rebound has revived merger mania on Wall Street. But how long can it last, asks **Richard Waters**

Cash was not king after all.

The US stock market's slide in late August and September halted the all-stock acquisitions that had powered the merger wave of the late 1990s. And that, in turn, seemed set to open the field to a new breed of buyer: the cash-rich companies and buy-out funds which had been waiting for just this eventuality to snap up acquisitions on the cheap.

This week, however, things have returned to what was normal during the great bull market.

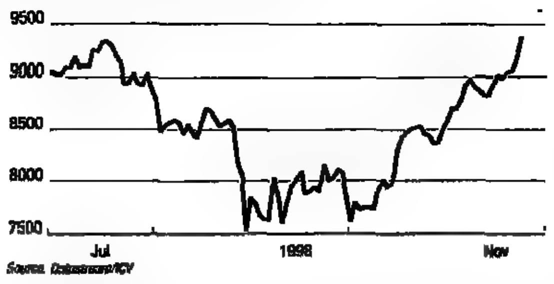
The Standard & Poor's 500 index bounced back to a new record on Monday, the same day that a batch of mergers worth nearly $40bn was unveiled. Most of these deals are powered by the same fuel that had sent the merger and acquisition business into orbit before: highly valued stock.

"Deals take weeks, or months, to do. It's not as though confidence came back last Wednesday and the deals all got done over the weekend," said Mark Heller, head of M&A at Goldman Sachs.

Recent US deals

Companies merging	Industry	Value of deal ($bn)
AOL/Netscape	Internet	4.2
Deutsche Bank/Bankers Trust	Financial services	9.7
Provident/Unum	Insurance	5.2
BF Goodrich/Coltec	Aerospace	1.5
Tyco Intl/AMP	Electrical engineering	11.3

Dow Jones Industrial Average



Source: Datastream/ICV

That may be the case. But it has taken the stock market's remarkable rebound to bring them to fruition. And for as long as share prices remain buoyant, it seems a fair bet that the merger scramble will be on again – for better or worse.

Consider serial acquirer Tyco International, a fast-growing conglomerate now worth over $20bn. While its shares languished, Tyco notched up two acquisitions for a combined $500m in cash. But a 40 per cent rebound in its stock price in a matter of weeks catapulted the company back into the big league. This week it came up with an $11.3bn all-share bid for a maker of electrical connectors called AMP, surpassing a rival offer of $9.7bn in hard cash.

Take the purchase of Netscape by America Online, announced yesterday. Was there industrial logic to the union? Certainly. But there was also the powerful logic of the stock market.

The gold-rush mentality that has infected investors in internet media companies has driven AOL's shares up by a factor of four this year: AOL is now worth nearly as much as General Motors, the world's largest manufacturing company. Netscape was left in the dust.

The stock market rebound has done more than simply provide the ammunition for acquisitions. It has also had a powerful effect on the confidence of corporate chieftains.

"They're like you or me: if you think things are going to be bad next year, you don't make that discretionary purchase you were thinking about," said Morton Pierce, head of M&A at Dewey Ballantine, a New York law firm.

In the depths of the financial market crisis this autumn, confidence was a commodity that was in short supply. And though the US economy is still expected to slow next year, high share prices have allowed company bosses to start strutting again.

If the financial markets hold up, there is every reason to believe that the acquisitions will flow freely again.

That is a big "if", of course: the stock market's rebound has come despite a worsening outlook for corporate profits, which ultimately support share prices.

"In the long run, earnings expectations seem overly optimistic," adds John Lipsky, chief economist at Chase Manhattan. "If anything, though, this may increase the press of mergers, as companies rush to complete their deals while the financial wind is still behind them."

Two giant mergers agreed in the spring have had a bumpy ride

What makes this all the more remarkable is the ample evidence that mergers often do not work out for the best. The academic debate on this has raged since the 1980s, and it will take some years before before the benefits – or otherwise – of the supposed wave of "strategic" mergers of the 1990s can be fully assessed.

It does not take a business school professor, however, to see the sorts of problems that can arise. That has been particularly true recently in the financial services industry – a sector which is likely to return to the forefront of merger activity following this week's news that Deutsche Bank is close to agreeing a $9.7bn purchase of Bankers Trust.

Two giant mergers agreed in the spring have had a bumpy ride. Both BankAmerica and Citigroup – now the two biggest financial companies in America – jettisoned their heirs apparent within weeks of mergers. Even Sandy Weill, the Citigroup co-chairman whose dealmaking skills are legendary, has stumbled over the job of combining the very different cultures of a commercial and an investment bank.

This should raise a warning as merger activity enters a new phase. Most corporate combinations so far have been motivated by an attempt to save costs, says Mr Heller. These so-called "horizontal" mergers have largely involved combinations of regional rivals, bringing concentration of market share, lower unit costs and the promise of fatter profit margins.

The mergers are now moving on to a different stage. Increasingly, companies are driven by a belief that they can add something new to the companies they buy, whether it is management skills, new products or a different distribution system.

In the same way that Citigroup hopes to cross-sell insurance products to credit card customers, AT&T plans to sell telephone service to the cable television customers of TCI, a company for which it is paying nearly $50bn.

These more ambitious deals are also starting to leap across continents, with companies like Daimler and Deutsche Bank reaching into the US to buy skills and products they have not been able to develop themselves.

History might suggest that investors should approach such mergers with extreme care. But as long as the stock markets are roaring, it seems a safe bet that investors and the companies they own will be tempted to throw caution to the winds.

LETTERS TO THE EDITOR

Corporate paternalism that rings Chinese bells

From Lord Haskel.

Sir, Lucy Kellaway's "Big shots miss the target" (November 16) about the SAS software company rang a bell.

It reminded me of two wool textile companies that also retained their workers by offering them homes, schools, hospitals, good food, and entertainment on or near the premises. They went further, by providing transport, holidays and other benefits. Neither company offered vast salaries or expensive stock options.

Which are these companies? One is near Beijing, which like many other Chinese companies introduced these policies after the Communists came to power, and where my company, Perrous, was responsible for providing new finishing technology during the 1980s.

The other is Salts of Saltaire, near Bradford, which introduced these welfare policies over a hundred years ago.

Haskel,
12 Rosemont Road,
Richmond,
Surrey TW10 6QL, UK

UK businesses pay out too much in dividends and invest too little in R&D

From Mr John J. Flynn.

Sir, The recent letters regarding dividend policy and the article by Peter Mandelson, trade and industry secretary, on competitiveness (November 20) raises the question of British industries' investment in competitiveness and long-term wealth creation.

While the definition of dividends varies across the world, it is worrying to find that shareholders in UK companies earn twice as much as their European and Asian competitors in terms of dividends as a percentage of sales revenue.

It is equally of concern to discover that UK companies only invest half that of their competitors in research and development. In major companies across the world, dividends average out at approximately one-third of that spent on R&D, while UK shareholders draw off the equivalent of one and one-third. These figures are drawn from the Department of Trade and Industry statistics.

Until British business, and its shareholders, learn that in order to just stand still it must invest as much as its competitors, it will continue to lose ground in the world markets.

Growth, in terms of market share and wealth creation, can only be achieved through investment in research, training, productivity, sales and marketing, etc. This must be equal to or greater than our competitors: a lesson they have learnt and we appear yet to accept.

John J. Flynn,
6 Spinis,
Bracknell,
Berkshire, RG12 8XA, UK

Stand on democracy from House of Lords is good case for its existence

From Mr John Szemerey.

Sir, Bravo for the House of Lords ("Aristocrats no democrats, say critics", November 19).

By rejecting a government bill that would enable the political parties to decide most of Britain's future members of the European parliament irrespective of the wishes of the electorate – which is what fixed lists of candidates actually do – the House of Lords has done two things:

First, it is fighting for democracy by giving the elector the right to vote for an individual candidate instead of just offering him a choice between two, three or more fixed party lists. Not even Tony Blair's image police can pretend that all candidates on the electoral list of a party have identical views. It is right and democratic that the elector should be able to choose not only his preferred party but also the candidate who stands for the principles and ideas in which he believes.

Second, it has made an excellent case for itself, for a second chamber of parliament that is strong enough and sensible enough to question, improve or reject faulty or mistaken draft legislation that has been approved by the House of Commons ... especially now, when there is a weak opposition and an unhealthily large government majority.

John Szemerey,
76 Marnixlaan,
B-3090 Overijse,
Belgium

British business euro petition 'short on argument'

From Mr Adrian Sells.

Sir, As the debate on European economic and monetary union hots up we will no doubt get used to adverts similar to the one printed in Monday's FT (November 23) purportedly representing the views of British business.

Sadly, as so often with those defending the case for early Emu entry, the statement was short on argument. The only true contention was that Emu will free companies within the euro area from the "uncertainties of exchange rate fluctuations". Otherwise, this expression of business' natural self-interest apart, we were offered unsupported assertion and sophistry.

The key phrase came in the fifth paragraph – "if it works well". If Emu does not work well, then there will be no "low and stable interest rates and low inflation", no promotion of "trade, investment, and economic growth" and our entry would, in fact, be seriously injurious to "our future prosperity".

Emu sceptics repeatedly put the case why monetary union is unlikely to work, why it is a flawed concept. Can we please hear some arguments from Emu supporters about why it will work, not just nonsense based on the assumption that it will. Otherwise, what's wrong with wait and see ... for as long as possible.

Adrian Sells,
6 Gorst Road,
London SW11 6JE,
UK

Number One Southwark Bridge, London SE1 9HL

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PERSONAL VIEW EDMUNDO JARQUIN

Bulldozers, not tanks

The most important lesson of Hurricane Mitch is to use aid to break the cycle of historical and natural catastrophes that has afflicted central America

An exact calculation will never be made of the human and material damage caused by Hurricane Mitch in central America. But the worst-hit countries, Honduras and Nicaragua, may have lost a generation or more of economic progress. An enormous amount of humanitarian and reconstruction aid is needed, and there is no reason to delay its prompt arrival.

It is important to ask, however, how this aid will be used. Before the hurricane, the countries of central America were extremely poor (Nicaragua has roughly the same income per person as Zambia and India). They also suffered from grievous disparities of income (see chart). Although all governments of the region now have elected civilian governments, central America's history of civil wars, revolutions, foreign interventions and dictatorships has left these new democracies extremely feeble.

Official institutions remain riddled with cronyism. Civil society is weak. The modest private sector, as in a hall of mirrors, reflects the public sector's incompetence and corruption.

The backwardness of Honduras and Nicaragua are the result of natural and manmade catastrophes. The two are related. Even though the natural kind cannot be averted, man magnifies the consequences. In 1972, an earthquake destroyed Nicaragua's capital. In 1976, Hurricane Fifi devastated Honduras. The aid available then did nothing to improve the condition of either country and may, in some respects, have made matters worse.

Anastasio Somoza, the former Nicaraguan dictator, said the earthquake that laid waste his country's capital represented a "revolution of opportunity" because it created new prospects for investment and attracted infusions of financial support. In practice, the "revolution of opportunity" and much of the aid ended up in the pockets of Somoza and his cronies – with the result that another kind of revolution erupted seven years later. This led to civil war, American and Soviet involvement, and two decades later, a level of income per head that fallen back to the point it had been 40 years ago.

This time, international aid should be used to break the cycle of historical and manmade catastrophes. It can do this by changing spending priorities in five areas:

● Natural protection against natural disaster. Massive deforestation is to blame for a major part of the damage from the hurricane because without the barrier of the trees, there was nothing to break the floodwaters. The international community should consider a supervised ban on timber exports until plans are devised for the sustainable exploitation of the forests. Aid might also be directed to projects that conserve nature and restore natural ecosystems.

● Government. Despite the emergency, efforts must also be made to strengthen democratic institutions, especially watchdog agencies and judicial systems, to ensure aid is not stolen, as it was in the past. The worst possible outcome would be the inefficient or corrupt management of international aid, leading to a further erosion of citizens' confidence in their own governments.

● The poor. International reconstruction efforts must be focused on the needs of poor neighbourhoods and communities. It should not be administered indiscriminately or benefit families with the means to help themselves.

● Armies. For the first time in their history, the Honduran and Nicaraguan armed forces answer to civilian governments. These armies mostly possess weapons – such as tanks – that do not properly serve regional security needs. They do not have bulldozers or transport vehicles needed to deal with natural disasters. This is the time to provide aid to the armed forces, and training in how to use it, which would prepare the countries for future emergencies. This may also help in the management of one of the most sensitive aspects of the transition to democracy: the status and role of military forces.

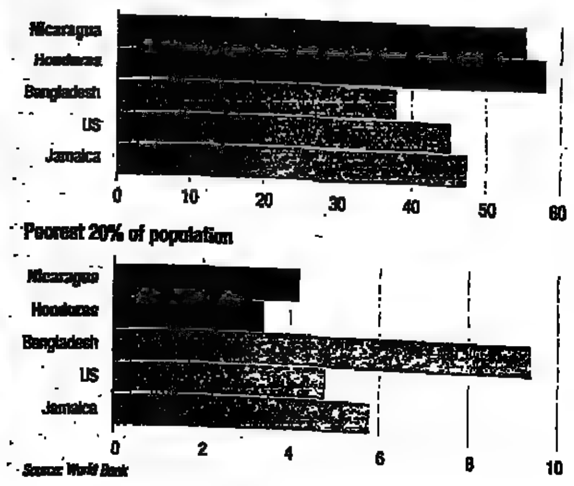
● Regional trade. Aid could help to promote economic and political integration of the central American republics. The hurricane has shown how interdependent they all are. The fallen bridges in Honduras and Nicaragua have devastated commerce throughout the region. Poverty will surely propel massive flows of migrants – not only towards the US but also to Costa Rica. Why not take advantage of the moment to create regional agencies with authority to manage regional development projects? The idea is the same as that advanced by Monnet and Schuman when they created the European Coal and Steel Community, the precursor of the European Union. Central America needs a similar vision.

If all this is done, Hurricane Mitch can launch a real revolution in opportunity, not be just another tragic case of mismanagement.

The author is an official at the Inter-American Development Bank


After Mitch: reconstruction aid must focus on the poorest areas

Distribution of income
% share of income by income quintile, selected countries



Source: World Bank

COMMENT & ANALYSIS

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700

Wednesday November 25 1998

Mr Blair's hard labour

Tony Blair would like to think his second legislative programme, announced yesterday, shows the UK's Labour government well into its stride. Critics will look for signs of breathlessness as it approaches more difficult terrain.

After 19 months in office, the party machine spins off impressive-sounding statistics of success. Of the 177 manifesto commitments made before the election in May 1997, it claims that 63 have been fulfilled, 109 are being implemented. Mr Blair must be given credit for starting briskly. But ticking off pledges savours of the glibness of opposition. In its second year in power, Mr Blair needs to show a deeper coherence of policies.

To be sure, Labour's management of the economy has been prudent. The setting up of a Scottish parliament and assemblies in Wales and Northern Ireland has gone – so far – better than many expected. And its welfare-to-work programme was pursued with commendable energy. But the proposals in yesterday's Queen's Speech shows that it still has much to do, not only in working out essential details but also in thinking through the broader architecture of its plans.

Apart from the complex legislation for the new Financial Services Authority, a series of law reforms and continuing work on reform of the health service, the forward agenda includes two big items of unfinished business: the welfare system and constitutional reform.

On welfare, the general direction of the government's policies is now clear. It wants to limit the growth of public expenditures, to push people off benefits into work where possible, and to refocus welfare payments on the most needy. But this necessarily implies an increase in means testing and an erosion of the principle of universal benefit for those who have contributed. The long-promised white paper on pensions reform may make the government's overall strategy clearer. But there is no sign yet that it has solved the problem of how to support those who cannot afford pensions while being fair to poorer people who – just – can. The pieces of the jigsaw still do not fit together.

The proposal to abolish the voting rights of heredity peers is an even clearer example of a policy that does not know where it is going. Mr Blair appears to have only the vaguest idea of what would replace the hereditary peers, and more to the point, what the job of a reformed upper chamber should be. In its present form, the Lords has shown a healthy tendency to challenge illiberal proposals. The government must expect that a more "legitimate" chamber will be even more vigilant. But far too little thought has been given to the implications of a new balance between the chambers, or, indeed, to a changed relationship between Westminster and devolved assemblies.

Delay would have let in other desirable bills, such as a freedom of information act, and given the government more time for the bigger question of Britain's relationship with the euro-zone. This was a case in which Labour should have cared more about doing things right than doing them in a hurry. If Mr Blair cannot learn that lesson, his ambitions of making a historic change in British life will be frustrated.

Polish transition

Poland is not Russia. This is a simple enough geographical fact. But it is also a message that the Polish government has been at great pains to stress to international investors, whose map of the world it fears might conflate the two. This week's transition report from the European Bank for Reconstruction and Development will help them in their task.

Poland is the success story of the transition economies, the EBRD confirms. Output will be 18 per cent higher this year than in 1989, when the former communist countries of central and eastern Europe began their difficult journey towards a market economy. Among the leading pack, the Czech Republic, Hungary, the Slovak Republic and Slovenia are all more or less back to where they were in 1989.

A gradual but consistent programme of privatisation and structural reform has been combined with steady progress in bringing down interest rates and inflation. Next month, the inflation rate is set to fall below 10 per cent. The Maastricht criteria have been used as a guide for fiscal policy. The Czech Republic may have got off to a faster start, and Hungary may have done a better job of shifting into higher value added sectors. But what stands out in Poland's success as been the continuity of the reform effort under shifting coalitions.

This stands in stark contrast to Russia, where output this year will be just 55 per cent of the 1989 total. The EBRD warns that international turbulence following Russia's devaluation and default will dent progress across the transition economies. But those that have succeeded in combining liberalisation, privatisation and institutional reform are best placed to weather the global storm.

Thus, seven years of strong, uninterrupted growth in Poland look set to continue. According to EBRD forecasts, the economy will expand by 5.2 per cent this year, and 5 per cent in 1999. That seems reasonable. Capital withdrawal has been modest and foreign direct investment flows have proved robust.

Poland must keep up the momentum for reform, sorting out its coal and steel industries and a fragmented agricultural sector that still engages some 25 per cent of the labour force. Even if this is achieved, enlargement is likely to be a slow process, with the EU shamefully dragging its heels. But growth of 5 per cent, twice the EU average, should ease the wait.

Buying abroad

Among the blizzard of mergers announced this week, there is an odd one out. America Online and Netscape, BTR and Siebe, Tyco and AMP – all are being consummated within the same country. But the proposed deal between Deutsche Bank and Bankers Trust belongs to a different and notoriously riskier category: that of the transatlantic takeover.

This does not apply only to the financial services industry. Corporate history is strewn with disasters from every sector: Blue Arrow's purchase of Manpower, Robert Maxwell's of Macmillan, Farnell Electronic's of Premier. Indeed, there is no need to stop at the Atlantic: think of Sony and Columbia Pictures.

Within banking, the traffic has been two-way. In the 1980s, the UK's Midland Bank fouled up buying Crocker of the US. Around the same time, reform of the UK stock exchange prompted US banks to spend prodigiously building a presence in London. The result was a bonanza for the partners of old London stock-broking firms, and almost nobody else.

So how are these markets to be penetrated? With patience. Morgan Stanley and Goldman Sachs have powerful positions in European investment banking, having built their businesses from scratch. Merrill Lynch has acquired aggressively in recent years, but stuck to organic growth during the frenzy of the 1980s. Indeed, it is too early to tell whether its more recent purchases, such as Mercury Asset Management in London, will pay off.

Deutsche Bank could justly claim it has been trying to build a US presence for years. Since the process has proved too slow, it is now trying to accelerate it. But why was it slow? If Deutsche does not know how to succeed in the market, will a $10bn purchase show it how?

One must not be too pessimistic. When Grand Metropolitan bought Pillsbury of the US, the chief obstacle was Pillsbury's subsidiary Burger King – a business so moribund that it was widely regarded as a poison pill. Under British management, Burger King is now a serious competitor to McDonald's.

With luck, Deutsche Bank can work the same trick with Bankers Trust. But the main point holds. Not for nothing is America the home of shareholder capitalism. In buying US assets, the central question – too seldom asked – is why the other side is selling.

Is Lafontaine half-baked?

Martin Wolf says that, while many of the German finance minister's ideas are misguided, he is right to open up the debate about economic co-ordination in post-Emu Europe

Oskar Lafontaine is not so much a breath of fresh air as a hurricane. In a remarkably short time, Germany's new finance minister has managed to shake most of the traditional verities of the European economic landscape.

He wants to:

- Boost demand at home, with higher wages and lower taxes for the less well-off, while shifting the burden of taxation on to companies, mobile capital and environmentally polluting activities.
- Encourage harmonisation in Europe, to sustain each country's capacity to tax capital and preserve employment.
- Persuade or cajole the European Central Bank to shift its attention from price stability, towards growth and employment.

The first two of these are modestly harmful, at best. Mr Lafontaine's belief that higher real wages are a necessary and sufficient condition for employment growth is unfounded. With a central bank determined to keep inflation low, higher nominal wages will mean higher real wages and lower profitability, hurting investment, growth and the ability to generate jobs.

Tax harmonisation, on which hostilities have broken out between the British government and its European partners, is of virtually no relevance to the goals of the new government, while taxing mobile capital by agreement among members of the European Union is fruitless, because capital can go anywhere.

Worse, premature and forced harmonisation of real wages and conditions across the European Union is by far the greatest long-term threat to employment. If it needs to be convinced, the German government needs only look at the industrial landscape of eastern Germany, blighted after the currency union with western Germany.

Yet there is one respect in which the agenda advanced by Mr Lafontaine seems on the mark: a radically new environment for macro-economic policy does need new mechanisms of co-ordination. Mr Lafontaine is going to the heart of the debate about how to manage the post-Emu European economy.

The orthodoxy of the ECB is that co-ordination is unnecessary. In this view, the central bank's job is to achieve price stability, which it has defined as an increase of less than 2 per cent in the medium term, with the word "increase" suggesting that inflation should not fall below zero. Meanwhile governments should target a structural fiscal deficit of close to zero, in accordance with the EU's growth and stability pact; and liberalise markets for labour, capital and production of goods and services. Then – hey presto – the result will be growth and rising employment.

Many of the new ministers, notably Mr Lafontaine and Dominique Strauss-Kahn, his French counterpart, disagree. To varying degrees, they want aggregate demand, the balance between fiscal and monetary policies, and the exchange rate of the euro to be managed by governments and the ECB, co-operatively.

In justifying this view, they point across the Atlantic, noting two features of US performance in the 1990s: Alan Greenspan's activist monetary policy and Bill Clinton's decision to tighten the fiscal stance, to achieve lower interest rates. But, wrongly, they ignore – or consider unimportant – the more competitive US labour markets, lower taxes and more limited welfare state.

For governments and central bankers to disagree so profoundly on the underlying philosophy of macro-economic policy is troublesome, regardless of who is right. The more at odds they are, the more chaotic the EU will look, particularly when things go wrong, as they are bound to do.

The still greater danger, however, is that neither side will get what it wants: the ECB will stick narrowly to its remit; governments will not move further on fiscal consolidation; and structural reforms will be avoided. The EU will remain a zone of slow growth and high unemployment. Emu will be a paradise lost, not paradise gained. This will, in turn, damage the legitimacy of Emu and the EU itself.

So which side is right? The answer is both. In the long run, the ECB's vision would work well enough, even without the monetary fine-tuning so characteristic of the Federal Reserve. Provided deflation were avoided, the combination of structural reform and fiscal consolidation would, in the end, lead to further declines in nominal interest rates and increased employment and growth.

Unfortunately, these outcomes would be delayed. There could first be yet another period of slow growth and rising unemployment, as happened in the 1990s. The patience of governments and electorates would be sorely tried.

There is, therefore, a powerful argument for greater policy co-ordination, to accelerate the EU's move towards increased demand and jobs. As Christopher Allsopp and David Vines of Oxford University argue in an assessment of macroeconomic policy, "what is needed for Emu to succeed is labour-market reform, fiscal restraint, and an appropriate monetary policy to generate recovery, growth and reduced unemployment." The challenge is bringing this happy policy combination about.

The reason why achieving such co-ordination is difficult is clear enough. For any one country, even one with an independent central bank, the job is relatively simple. If the government tightens fiscal policy and liberalises the labour market, it can be at least moderately confident of a suitable response from the central bank. Such a response is even more likely if, as in the UK, the central bank has a single inflation target, with an obligation to avoid under- or overshooting, or, as in the US, the central bank sees its role as providing the fastest growth in nominal demand consistent with hitting the inflation target.

The position in the euro-zone is different in two fundamental respects.

First, there are 11 governments. Suppose just one, even one as big as Germany, tightens fiscal policy (or keeps it tight during a slowdown) and liberalises markets. It may then expect no reward from the ECB.

In the long run everything will adjust, as orthodox theory suggests. But the economist's lag is a politician's nightmare. In practice, each government will be less willing to reform because it does not expect any reward from the monetary authorities. It faces a prisoner's dilemma, as Allsopp and Vines note, "since the costs of labour market reform or of fiscal consolidation look large if not compensated for by monetary relaxation."

The solution to this dilemma is for all EU countries to change their policies together. That provides a justification for the Maastricht rules and even the restrictions imposed by the growth and stability pact. Similarly, it provides a justification for pursuing structural reforms co-operatively. More broadly, the benefits of this kind of co-ordination is a reason for setting up a strong Euro-11 committee of finance ministers, as Dominique Strauss-Kahn, the French finance minister, argues.

This brings up the second difficulty: the fear that the ECB, with its desire for independence and counter-inflationary credibility, is bound to refuse to play the game. There is nothing in the Maastricht treaty to compel the Bank to co-operate. This is, beyond doubt, the most independent central bank there has ever been. All governments can hope to do is change its council members – a slow and, in all probability, fruitless task.

The worry is further increased by the nature of the target the ECB has set itself. The biggest concern is that a range for inflation of 0-2 per cent is not, in practice, going to prove symmetrical because it seems so hard to go below this target range in an advanced economy. Consider Japan. Even with output running 8 per cent below potential, according to the International Monetary Fund's latest World Economic Outlook, consumer prices have only just started falling.

Thus the target the ECB has set itself is consistent with years of semi-stagnation. It is quite rarely going to find itself having to loosen monetary policy. Furthermore, the range is sufficiently wide to make the ECB's response to news on inflation, or changes in expected inflation, quite difficult to predict.

There is a substantial risk therefore that the ECB will proceed on its merry way, while frustrated left-leaning governments will fail to deliver either sustained fiscal consolidation or the structural reforms most of their supporters detest. They will, instead, find themselves forced further on the road of upward harmonisation of labour standards and perhaps even external protectionism. The result will then be bad for both Europe and the world.

There is yet another danger: that the policy combination will lead to an appreciating euro, provided fiscal credibility is not undermined. It is presumably to meet this threat that Mr Lafontaine has been talking about target zones for exchange rates.

But these are not going to be agreed with the US. Furthermore, the central bankers are right to argue that implementing such zones is virtually impossible.

At the point of intervention a decision has to be made on whether the weak currency central bank tightens its monetary policy or the strong currency central bank loosens, instead. That means, in turn, a co-ordinated monetary policy. But this is possible only if the central banks involved agree on a joint nominal anchor. In the ERM that anchor was the German price level. But between the euro-zone and the US, roughly of equal size, no such leadership is conceivable. There would need to be a partial monetary union. This is not going to happen.

Much of what Mr Lafontaine wishes to do looks misdirected or misconceived. But the view that some macro-economic coordination is needed among euro-zone governments and between them and the ECB is right. If this complex new game is played myopicly, the chances of ending up in a mess are depressingly high. That will be bad not just for those within the euro-zone, but for the entire world.

* *Christopher Allsopp and David Vines, "The Assessment: Macroeconomic Policy after Emu", Oxford Review of Economic Policy, Vol 14, No 3.*

Martin.Wolf@FT.com

OBSERVER

Dealers under Docters' orders

"I have no understanding of shares," says Arthur Docters van Leeuwen, a one-time spymaster who's to be the next chairman of Dutch bourse watchdog STE.

But he knows all about risk-taking. Sacked nine months ago as the country's chief public prosecutor after a clash with justice minister Winnie Sorgdrager, he refused successive severance offers in a saga which ended her cabinet career. Docters then upped the stakes, declining two other government jobs before agreeing to head the STE's first full-time executive.

Finance minister Gerrit Zalm, Docters's new political boss, must be happy with the deal: if he hadn't landed Docters, the government faced a large golden handshake for the portly, bicycling 53-year-old. And Zalm now has a heavyweight figure on to whom he can deflect the blame if there's any recurrence of the fraud and insider dealing charges laid a year ago against prominent brokers on the Amsterdam exchange.

Docters, who started his career as a finance ministry official, says he can take on any supervisory task: one of his previous jobs was running the Dutch counter-espionage agency.

He joins the STE board in January before taking over the top job next June. Dodgy dealers should expect no mercy.

Audit room

When Arthur Levitt, America's top securities regulator, attacked "accounting hocus-pocus" last month, he struck a chord across the border in Canada.

Toronto watchdogs are worried about a spate of re-statements of accounts: they fear companies are massaging the numbers to meet analysts' expectations and prop up share prices in a skittish market. It's a minefield for auditors who rely on the quality of information they get from company managements.

Take the public mud-slinging over Canadian theatre company Livent. A new management team headed by former Walt Disney president Michael Ovitz says Livent founder Garth Drabinsky manipulated the accounts for years, overstating income by nearly C$100m. Drabinsky accuses Ovitz and his team of playing with the figures to discredit him and set a low base to flatter future performance.

Caught in the middle are Deloitte & Touche, Livent's auditors, which repeatedly signed off on Livent's financial statements – and have now endorsed the vastly different re-audited results for 1996, 1997 and the first quarter of 1998.

This is not the first embarrassment for Deloitte's. Regulators called in the firm to re-audit the 1996 books of YBM Magnex International, the magnet company whose shares have been suspended since May while police investigate alleged connections with Russian organised crime – the original audit was done by a Pennsylvania firm.

The re-audit enabled YBM to raise C$60m on the Canadian markets at the end of 1997. Deloitte's resigned the account this year saying they could not verify YBM's 1997 statements.

Then waste metal company Philip Services saw its share price plummet when it re-stated its books back to 1995 after revelations of huge, undisclosed copper trading losses. Deloitte's were again the auditors.

Yesterday Deloitte's were refusing to comment on specifics, but said the cases were "isolated, complex and unique situations". The firm must be hoping their luck changes.

Manuel's labours

Manuel Pangilinan is a very busy man – and is about to become busier. The head of conglomerate First Pacific yesterday added two more titles: president and chief executive of Philippine Long Distance Telephone Company, the country's leading carrier.

None of his jobs is a pushover. The Asian financial crisis has ravaged some of First Pacific's holdings and its Hong Kong-based bank is fending off the attentions of miserly suitors. Meanwhile highly-geared PLDT needs more capital investment and has to synergise with Smart, the Philippines telecoms outfit First Pacific already owns.

Pangilinan, himself a Filipino, concedes that he'll be spending more time in Manila, but is adamant that First Pacific – controlled by the Indonesian Salim family and now largely invested in the Philippines – is not turning away from Hong Kong, where it will retain its base and listing.

But only time will tell if the territory remains home to Pangilinan too: with Hong Kong's unemployment at a 17-year high, he may feel that hogging three jobs is a little *de trop*.

Under cover

The KGB may have gone, but its Russian successor is having trouble with new-fangled notions like accountability.

After maverick members of the Federal Security Service – one wearing a balaclava – held a press conference to make accusations of dubious goings-on, Vladimir Putin, the organisation's head, felt obliged to speak to the media.

But all he wanted to say was that he couldn't understand the fuss. Internal investigators had opened nine criminal inquiries at the FSS last year and 11 this year, so everything was under control. Obviously.

The Financial Times 100 years ago

The Franco-Italian Treaty

The arrangement of a commercial treaty between Italy and France puts an end to a rupture which has lasted over seven years, and has been productive of much bad blood between the two countries. It was in 1887 that France, with the amiable intention of punishing Italy for joining the Triple Alliance, broke off her commercial relations with the Peninsula, and indeed succeeded so far in her purpose as to bring Italy to the verge of ruin. Italy for some years had an extremely rough time. In particular, the wine trade was badly hit.

50 years ago

Burma's Oil Policy

Rangoon, Nov 24. The Burmese Government has not reached a decision yet regarding the future nationalisation of the British-owned Burmah Oil Company, the Minister of Information stated yesterday. He was commenting on a statement by Mr. Lingemann, General Manager of the Company, who said: "People are fearful of investing money in a country where there is insurrection and violence."

FINANCIAL TIMES
WEDNESDAY NOVEMBER 25 1998

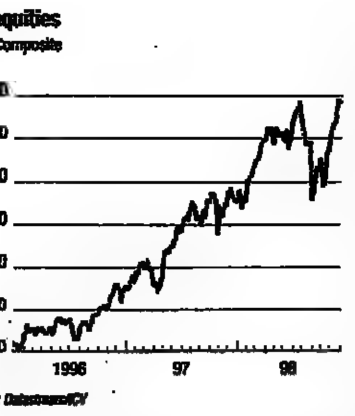
THE LEX COLUMN

Self-inflating prophecy

With the US stock market back near its all-time high, most investors secretly suspect shares are overvalued. But they also believe equities will produce the best returns over the long term. If both beliefs are true, could it be rational to keep buying?

A look at the numbers is not encouraging. Lex argued last month that fair value for the S&P 500 index is 800-850 and that, from such a level, investors could expect real returns of about 6 per cent annually over the long term. But with the index about 1185 today, such returns will be unachievable. In fact, if this stab at fair value is correct, real returns will average 2 per cent on a 10-year horizon – and still only 4 per cent over a 20-year span.

With such meagre returns in prospect, the argument that equities will outperform in the long run looks pretty suspect. So why do investors still hang on in there? Collective psychology is the answer. Because most investors believe in the superior performance of equities, they hold on through crashes and buy the dips – causing the market to recover in a self-fulfilling prophecy. But even sceptics find it hard to buck the trend. After all, it is almost as painful being out of the market when others are making money as losing money along with the herd. The power of such thinking means markets can depart from fundamentals for long periods. But when the correction comes, it could be brutal.



Deutsche/Bankers Trust

Forget the strategic guff. How can Deutsche Bank fund its planned acquisition of Bankers Trust?

It might seem Deutsche is so big that finding $9.7bn would not be a problem. Not exactly. Not only would it have to write off $6bn in goodwill, its shrunken capital base would also have to support an enlarged balance sheet. The net effect would be to cut Deutsche's tier-one capital adequacy ratio – as measured under international accounting standards – from 6.2 per cent to about 4 per cent. That is the bare minimum allowed under international banking regulations. But Deutsche would surely not think it prudent to sail so close to the wind.

Assuming Deutsche wanted to get back to 6 per cent, it would need DM12bn ($7.1bn) in extra capital. Some could come from issuing a type of preference equity, although regulations limit how much of this can be used.

Alternatively, Deutsche could issue new ordinary stock. But the best source of cash would be the sale of some of its vast portfolio of stakes in German industry, such as its 12 per cent holding in DaimlerChrysler or its 9 per cent in Allianz. The snag is that selling out could attract Germany's 50 per cent capital gains tax. That said, there might be clever wheezes for reducing the tax liability. Why not, say, raise cash from shareholders and, in a second stage, give them free shares from Deutsche's equity portfolio? It is certainly worth a thought.

France Télécom

Nothing succeeds like success. France Télécom's share price has more than doubled since its initial public offer in October last year, outperforming the French market by 70 per cent. By several measures, the stock is now expensive. Its 1998 price/earnings ratio of 29 times, for instance, is 30 per cent ahead of the French market. Yet 2.3m people are queueing to buy shares in the second tranche. Is this testimony to the growth of popular capitalism in France? Or are they riding for a fall?

Probably not the latter. The disproportionate number of shares allocated to individuals, and their small discount, should ensure that a quick profit can at least be made out of index-tracking institutions. Many of the 4 million who participated in the IPO did this, cutting their numbers to 1.4 million by this summer. For those who hang on there is a 1-for-10 bonus after 18 months, helping to compensate for a miserly yield of about 1.5 per cent.

As for popular capitalism, individual share ownership has been surprisingly flat at about 5.2m since 1994. A wave of privatisations helped rebuild the figure from 3.7m in 1992, but a run of lacklustre performances over the following years discouraged retail investors. Indeed, there is a risk that France Télécom will go sideways from this high level. But the benefits from employees and customers owning shares, in terms of labour relations and service, still stand. Roll on Air France.

Airlines and the euro

What impact will the single currency have on the European airline market? Take the consumers. One might believe that the extra price transparency would usher in more competition. The fact is that air fares are opaque, for reasons other than different currencies. Airlines have become expert at segmenting their passenger base, so that dozens or even hundreds of different fares are to be found for the same route, depending on factors such as time of booking or length of stay. Introducing the euro is unlikely to make much difference. In any case, analysts believe the big airlines' prices, adjusted for currency, are converging across Europe.

So it is not clear that there are great differentials to be ironed out. Where the euro may make a difference, however, is to airlines' finances. The need to hedge against foreign currency movements within Europe will be removed, although quite how much is spent in these operations is difficult to assess.

Still, considerable time and energy is devoted to tweaking fares across Europe to take account of currency fluctuations. Of course, these benefits may be offset by a strong euro. Big costs, such as fuel and aircraft orders are in dollars – although this may change with Airbus orders – but other costs such as airport charges and staff costs will be in euros.

Consumers, though, will notice little difference.

Lean budgets rob expats in China of charmed jobs

By James Harding in Shanghai

Downsizing has started to take an uncommon toll on expatriate executives in China as foreign companies respond to cost pressures by sending expensive overseas staff home.

The piecemeal recall of expat staff has gathered momentum in the last couple of months. The China operations of many international companies have come under budget pressure from head offices troubled by the slowdown in developed home markets.

In recent years, expatriates in China have been well-paid and relatively sheltered from rounds of cost-cutting. Their employers tended to see China as a long-term commitment.

But, as many foreign ventures in China continue to lose money, international companies in financial services, industry, manufacturing and consumer goods are accelerating the replacement of expatriates with local staff.

Fresh expatriates continue to follow foreign direct investment into China to set up projects – although actual FDI edged up only 0.57 per cent between January and October compared with the same period of 1997 – but the pressures on foreign jobs have been increasingly evident.

British Petroleum is planning to halve its expat staff in Shanghai over the next few months, cutting from 22 to 11.

"There has been a slowdown in the areas that BP is interested in. The company is looking at its costs in China and expats are expensive," said an industry observer.

Some of the largest multinational companies acknowledge that localisation has happened at a faster pace this year.

Motorola, the US telecoms group, is this year cutting its expatriate staff by 20 – or 10 per cent. The company said costs were only a partial consideration. "This is part of the ongoing process of localisation. We will see more local people assuming high management positions."

Unilever, the Anglo-Dutch group, is not extending the contracts of as many of its expats and, in a handful of cases, is likely to send people home before contracts expire.

Across the financial services industry in Shanghai, international banks and brokerages have been cutting jobs, making local staff redundant and repatriating or laying off expats.

William Hanbury-Tenison, the departing chief representative of Jardine Fleming, the largest international securities firm in Shanghai, will not be replaced from abroad. He said: "China has generally not been profitable and Hong Kong's ability to underwrite our expenses has been wiped out by the Asian economic crisis... Maintaining expats in China is prohibitively expensive."

An executive at one international accountancy firm that laid off 80 people across China this year and sent a number of foreign professionals home early, said: "In the past, companies were doing well at home. This year people are looking at internal budgets."

QUEEN'S SPEECH SIGNALS ATTEMPT TO MAKE UPPER HOUSE MORE DEMOCRATIC

Britain's Lords facing up to loss of their ancestral voices

By George Parker, Political Correspondent

To the uninformed, yesterday's state opening of the British parliament appeared much like the hundreds of others that have gone before it.

The Queen was still greeted by fawning officials, who walked backwards in their breeches and buckled shoes as a mark of deference.

She was accompanied by the usual array of royal hangers-on, with titles such as Rouge Croix Pursuivant, Gold Stick in Waiting, the Lady of the Bedchamber and, of course, Black Rod.

But there was one big difference this year: this was the last time the Queen will make her speech to a House of Lords crammed with hereditary peers.

Prime minister Tony Blair's drive to modernise Britain has now extended to their noble lordships. Peers – some of whom trace their titles back to Norman times – are to be booted off the red leather benches and packed off to their country estates.

In one of the more surreal moments of British history, it fell to the Queen – who is the country's most obvious beneficiary of the hereditary principle – to break the bad news.

"A bill will be introduced to remove the right of hereditary peers to sit and vote in the House of Lords," she said gravely.

"It will be the first stage in a process to make the House of Lords more democratic and representative."

What could have been going through Her Majesty's mind as she uttered those words? Would the monarchy be next?

What plans might Mr Blair have to introduce a bit of democracy to the Windsor family? Recent attempts to bring the royal family closer to the people – the introduction of Lady Diana Spencer and Sarah Ferguson, for instance – have not always been successful.

Mr Blair's plans for the Lords are certainly not popular with parliament's aristocratic wing.

The Queen's confirmation of the abolition of their voting rights was greeted by an unprecedented rumble of disapproval from the ermine-clad throng.

In particular, they resent the fact that Mr Blair has no clear idea of who will sit in the second chamber once he has despatched the hereditaries back to the grouse moors.

Perhaps a clue to a more popular and glamorous future was sitting in the chamber, demure and resplendent in white: the Hollywood actress Jamie Lee Curtis, wife of the soon-to-be banished hereditary peer Lord Haden-Guest.

Lords to lose powers, Page 10

CONTENTS

Former deputy premier Anatoly Chubais, left, Russia's Choice leader Yegor Gaidar, centre, and former first deputy premier Boris Nemtsov at the funeral of murdered politician Galina Starovoitova. Page 2 Reuters

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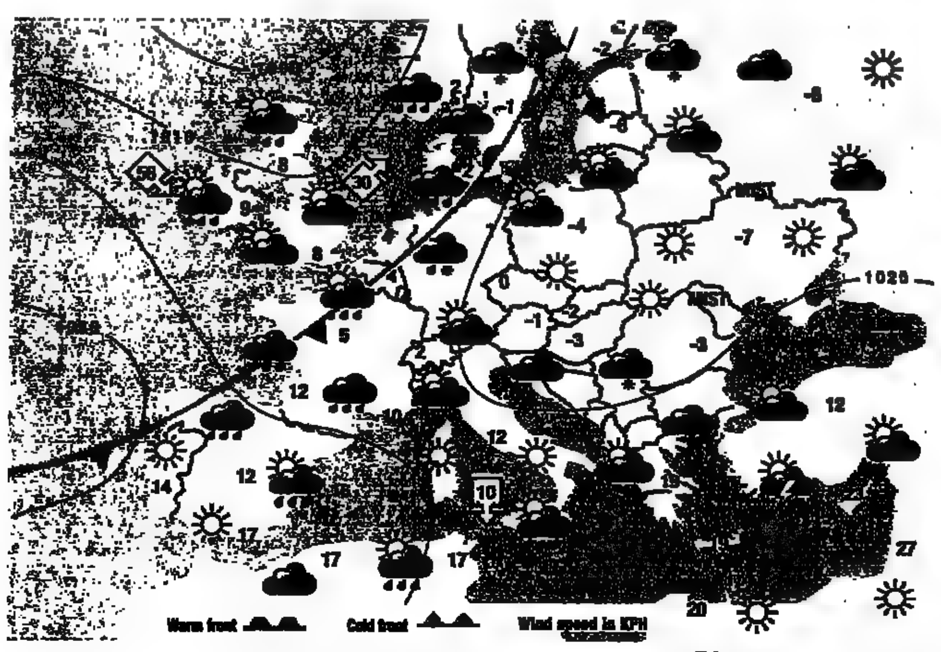
FT WEATHER GUIDE

Europe today

Showers are expected across southern Italy and Greece. Most of Spain and Portugal will be dry with sunny spells after a misty start, although northern Spain will have rain. There will be patchy rain in parts of France, the Low Countries and north-west Germany, but there is a risk of freezing rain well inland. South-east France, the Alps, and most of Germany will be dry with lingering frost and fog. Eastern Europe will remain dry but deeply frozen. Scandinavia will have rain or sleet in the south-west and snow flurries elsewhere.

Five-day forecast

France, Spain and Portugal will have sunny spells, but southern Italy and Greece will remain showery. North-west Europe will become milder with, weak fronts bringing occasional rain. Central Europe will become less cold, but the east will remain very frosty.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES (Maximum Celsius)

City	Weather	°C
Abu Dhabi	Sun	30
Accra	Fair	32
Algiers	Cloudy	17
Amsterdam	Rain	4
Athens	Shower	18
Atlanta	Fair	19
B. Aires	Shower	20
B.ham	Fair	7
Bangkok	Fair	29
Barcelona	Shower	13
Beijing	Fair	1
Belfast	Shower	8
Belgrade	Snow	-3
Berlin	Fair	1
Bermuda	Fair	22
Bogota	Fair	20
Bombay	Sun	33
Brussels	Cloudy	4
Budapest	Fair	-2
C.hagen	Rain	2
Cairo	Sun	26
Caracas	Fair	30
Cardiff	Shower	10
Casablanca	Sun	23
Chicago	Fair	13
Cologne	Fair	2
Dakar	Sun	32
Dallas	Fair	23
Delhi	Sun	27
Dubai	Sun	31
Dublin	Shower	9
Dubrovnik	Shower	12
Edinburgh	Shower	7
Faro	Sun	17
Frankfurt	Sleet	2
Geneva	Fair	2
Gibraltar	Sun	18
Glasgow	Shower	8
Hamburg	Cloudy	1
Helsinki	Snow	-2
Hong Kong	Fair	26
Honolulu	Fair	29
Istanbul	Fair	12
Jakarta	Fair	33
Jersey	Shower	10
Johannesburg	Fair	25
Karachi	Sun	32
Kuwait	Sun	30
L. Angeles	Sun	24
Las Palmas	Cloudy	22
Lima	Cloudy	23
Lisbon	Sun	14
London	Fair	8
Luxbourg	Sleet	1
Lyon	Shower	3
Madeira	Fair	21
Madrid	Fair	12
Majorca	Shower	16
Malta	Shower	17
Manchester	Shower	7
Manila	Shower	29
Melbourne	Fair	24
Mexico City	Fair	23
Miami	Fair	26
Milan	Fair	8
Montreal	Cloudy	2
Moscow	Sun	-6
Munich	Fair	1
Nairobi	Fair	25
Naples	Sun	12
Nassau	Sun	28
New York	Fair	10
Nice	Shower	10
Nicosia	Fair	19
Oslo	Sleet	2
Paris	Shower	5
Perth	Sun	23
Prague	misty	0
Rangoon	Fair	32
Reykjavik	Sleet	3
Rio	Sun	28
Rome	Sun	12
S. Frsco	Fair	16
Seoul	Shower	4
Singapore	Thunder	31
Stockholm	Snow	-1
Strasbourg	Fair	-1
Sydney	Shower	21
Tangier	Fair	21
Tel Aviv	Sun	27
Tokyo	Rain	13
Toronto	Shower	8
Vancouver	Rain	10
Venice	Fair	8
Vienna	Fair	1
Warsaw	Fair	-4
Washington	Fair	17
Wellington	Fair	15
Winnipeg	Fair	5
Zurich	Fair	2

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FINANCIAL TIMES
COMPANIES & MARKETS
© THE FINANCIAL TIMES LIMITED 1998 — WEDNESDAY NOVEMBER 25 1998 — Week 48

INSIDE

Seagram faces dispute at PolyGram
Canadian group Seagram faces a dispute at PolyGram, the Dutch music group it has bid $11bn for, over the new head of its enlarged music publishing arm. PolyGram staff are said to be incensed that the head of its publishing arm is not to head the new division. **Page 19**

IMF deal aids Pakistan telecoms sale

Economic uncertainty since Pakistan's nuclear weapons tests in May could be coming to an end as talks between the administration of Nawaz Sharif (left) and the IMF edge towards an agreement for a $500m-$700m loan. This is welcome news for the government, which still aims to sell 26 per cent of Pakistan Telecommunications Corporation's shares under the next phase of the privatisation plan. **Page 18**

US value funds move into UK groups
Siebe's takeover of BTR may prove to be the first vindication of a creeping trend in the engineering industry. In the past year, US value investors have begun to take large stakes in engineering groups across the Atlantic. **Page 23**

Turkish group ignores Russia's chill
One hypermarket operator is ignoring Russia's August economic crisis, which chilled the prospects for many Russian retailers. The 26,000 sq m Ramstore, backed by Turkish groups Enka and Koç, is to be inaugurated by Yuri Luzhkov, the Moscow's city's mayor, tomorrow. **Page 20**

Benelux markets form trading link
From January the Dutch, Belgian and Luxembourg bourses will open their doors to each others' members, in one of the most extensive cross-border tie-ups to date in European securities markets. **Capital Markets, Page 26**

Airtours launches £250m bond
Airtours, UK's second largest tour operator, posted full-year results up on expectations, but shares in the group fell more than 5 per cent after it announced a £250m ($420m) convertible bond to fund growth. **Page 26 and Comment**

Namibia attracts foreign interest

Namibia's NSX stock exchange has grown rapidly since its 1992 formation – two years after the country, led by President Sam Nujoma (left), gained independence. It is attracting foreign investors as it grows. The second biggest African bourse, more than 98 per cent of the NXS's N$150bn ($26.6bn) capitalisation is accounted for by secondary listings of large South African groups such as De Beers, the diamond company. **Emerging Market Focus, Page 38**

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MARKET STATISTICS

Brussels may extend BT-AT&T inquiry

Telecoms rival Cable and Wireless attacks alliance plan

By Alan Cane in London and Emma Tucker in Brussels

Cable and Wireless, the UK's second largest communications group, yesterday attacked the proposed alliance between British Telecommunications and AT&T of the US as it became clear the European Commission was set to open a full investigation into the tie-up because of competition concerns.

"The BT and AT&T proposals should not be allowed to go ahead," C&W said yesterday, arguing an alliance would create a giant carrier which could crush competition and dominate the global telecoms market.

C&W has already filed a broad summary of its worries to the European Commission. On Thursday it intends to submit its complaints in detail. It will also complain to the Commission and to the US Department of Justice that AT&T has started to sell BT services in the US without the necessary regulatory clearances.

EU officials said it was "very likely" that the Commission's existing anti-trust inquiry would be extended by a further four months. An announcement is expected next week. The probe could result in the two companies having to make changes to the alliance.

EU sources believe the two companies have already gone a long way to try to pre-empt competition concerns. They are understood to have ring-fenced certain areas of the joint business, and divested others in an attempt to avoid a protracted argument with Brussels. A Commission official said yesterday that the probe will focus in particular on the impact of the alliance on internet services.

AT&T and BT, the world's second and fifth largest telecoms operators respectively, announced plans in July this year to pool their international operations in a joint venture that would carry 25bn minutes of traffic annually and have an initial turnover of £6bn ($10bn). They said they would jointly create a new global network based on internet technology and capable of handling huge quantities of data.

Stephen Pettit, executive director for C&W's global businesses, said BT and AT&T together would account for 50 per cent of the two-way traffic between the UK and the US. BT, he pointed out, originated 60 per cent of outgoing minutes from the UK to all destinations, while AT&T originates 50 per cent of all outgoing calls from the US. Combined, he pointed out, the joint venture will be more than twice as large as its nearest international competitor.

The joint venture would also combine the world's two largest calling card businesses and would have 40 per cent of the largest multinational companies in their target sectors.

John Zeglis, AT&T head of operations, left, with BT chief executive Sir Peter Bonfield at the announcement of the alliance in July

US paper group to pay $6.6bn for rival

By John Authers in New York

International Paper, the largest US paper manufacturer, is buying Union Camp, one of its competitors, in an agreed all-stock deal valued at $6.6bn, including debt. The move triggered speculation on Wall Street that consolidation in the US paper industry was at last under way.

Separately, Smurfit-Stone Container, the company formed last week by the $1.35bn merger of Jefferson Smurfit with Stone Container, announced a restructuring that would involve cutting about 10 per cent of its 36,000 workers. It will take a charge of between $300m and $350m, and reduce its annual US containerboard capacity from 6.8m tons to 5.7m tons.

The Union Camp deal will also involve cost-cutting, with the companies predicting $300m in savings within a year, through facility rationalisations, overhead reductions and logistics savings. Last year, Union Camp had sales of $4.4bn, while International Paper had sales of $20.1bn.

John Dillon, International Paper's chief executive, said: "The world has been waiting for something like this. It's a step in the consolidation of the worldwide paper industry."

He admitted the company had been severely affected by the downturn in the Asian economy which had helped to depress paper prices.

Outside the US, the past two years have seen consolidation in the industry, with mergers by Canadian and Scandinavian companies. But the International Paper deal, which values Union Camp at $71 per share – a huge premium to its share price of $48½ before the deal was announced, is the biggest merger seen in the US paper industry.

International Paper has already completed a series of assets sales intended to focus the company on its core paper and forest products businesses.

In early trading Union Camp's shares were up 36 per cent or $17½ to $66¼ while International Paper's shares eased. Smurfit-Stone gained more than 10 per cent to $13⅞.

Elsewhere in the sector, Boise Cascade and Willamette Industries gained more than 10 per cent.

Looking good on paper, Page 22
Canada's forest gloom, Page 28
US stocks, Page 38

Deutsche woos regulators on Bankers Trust

By Tracy Corrigan and John Authers in New York

Deutsche Bank, Germany's largest bank, has started courting US regulators and leaders of Jewish community groups to smooth the way for approval of its proposed $9.7bn acquisition of Bankers Trust, America's eighth largest bank.

Deutsche's chairman, Rolf Breuer, said the banks had scheduled high-level meetings with regulators in New York and Washington this week to discuss the transaction, which has to be approved at the Deutsche Bank supervisory board and the Bankers Trust board meetings on Sunday. Deutsche is also negotiating with Bankers Trust executives over retention payments that are likely to add millions of dollars to the acquisition's cost.

Meetings with the New York State Banking Department and the Federal Reserve are understood to have taken place. Deutsche Bank officials have also met leaders of the US Jewish community, which has criticised Deutsche over the "Nazi gold" issue.

In September, Deutsche contributed $300m to the rescue of Long-Term Capital Management by a consortium of banks co-ordinated by the Fed, despite having little exposure to the troubled hedge fund. According to people on Wall Street, this has helped establish Deutsche's credentials in the US banking community.

Deutsche also appears to be taking steps to avoid problems that hit UBS and the Swiss Bank Corporation, whose merger this year was delayed for several months while the New York State Banking Department sought assurances the banks would compensate Holocaust survivors denied access to dormant accounts. The deal was cleared after the World Jewish Congress told regulators it was confident of receiving a fair settlement.

Deutsche has been sued in the US by the lawyers who led the action against the Swiss banks. Deutsche's role in handling property looted by the Nazis is the key issue in these lawsuits. Elan Steinberg, executive director of the World Jewish Congress, refused to rule outblocking the Deutsche-Bankers Trust merger, although he stressed it would be "the least desirable option".

As a bank holding company, Bankers Trust is regulated by the Federal Reserve, while as a state-chartered bank it is regulated by both the Fed and the New York State banking authorities. Approval from both is required in the US.

Lex, Page 18

First Pacific pays $749m for 17% stake in PLDT

By Tony Tassell in Manila and Louise Lucas in Hong Kong

First Pacific, the Hong Kong-based conglomerate, has acquired control of Philippine Long Distance Telephone, taking a strategic stake in the telecommunications carrier for US$749m.

The controversial deal gives First Pacific a dominant position in the country's telecoms market. It also marks its transformation from a diversified pan-Asian conglomerate into one heavily reliant upon the Philippines.

The company this year embarked on a $2bn asset disposal programme, which has left it with a considerable cash pile for acquisitions.

But analysts said First Pacific paid dearly for its 17.2 per cent stake in PLDT, at 1,420 pesos a share, which represents a 31 per cent premium to the closing price on Monday.

Alexandra Connor, director of research at Indosuez WI Carr Securities, described the pricing as aggressive.

"They will face a challenge to justify the price paid for the deal," she said. She expected PLDT would deliver less than 1 per cent earnings growth next year.

However, Manuel Pangilinan, managing director of First Pacific – and, as of yesterday, chief executive officer of PLDT – said the price was fair given arrangements under which the group secured a voting interest of 27.4 per cent, representing a share price of 895 pesos.

The cost will be amortised under plans to sell up to 25 per cent of Smart, the Philippines' number two telecoms carrier which is also under the First Pacific umbrella, to NTT of Japan. First Pacific then proposes transferring Smart into PLDT.

First Pacific already has a 52 per cent share in the cellular telecom market and a 5 per cent share of the fixed-line market through its Philippine unit Smart Communications. PLDT has about a 72 per share of the fixed-line market, dominates international telecom traffic out of the Philippines and has about 30 per cent of the cellular market through its troubled subsidiary Pilipino Telephone.

Observer, Page 15

BARRY RILEY

Blowing bubbles again

We can call it rational exuberance. On Monday, Wall Street celebrated its complete recovery from the late summer crisis, with the Dow Jones Industrial Average hitting a new high after rising 24 per cent from its low at the end of August, when forced selling by hedge funds and other leveraged players was at its peak.

Is what is good for Wall Street good for America? It seems US investors can now rely on the Federal Reserve to bail them out of any mess they get themselves into. They can leverage the risks again.

Without looking at the securities markets, it is impossible to make any sense of the Fed's recent decisions. On the basis of the economic numbers, it is hard to see that the Fed should be afraid of anything except overheating.

Yesterday's upwards revision of third-quarter gross domestic product shows that the US economy has been powering on at a near 4 per cent year-on-year growth rate at least up to September, in spite of a collapse in export growth.

Broad money growth has recently accelerated to 15 per cent annualised, a phenomenal expansion rate in real terms which easily explains the reinflation of Wall Street's bubble.

True, the credit surge is partly the result of the hiatus in corporate bond issuance, which is more or less over but which for several months caused US companies to draw unusually heavily on their bank credit lines.

Nevertheless, extreme strength in the housing market shows that the credit-based boom is having a broad economic impact.

Meanwhile, consumer spending has been growing at 5 per cent as the US heroically strives to head off a global economic slump and in the process the personal saving rate has gone negative.

Any threat that weakness on Wall Street might undermine consumer confidence has been removed. The "wealth effect" has been restored.

Is there still a hidden problem in the financial system that the Fed is trying to address? It seems unlikely. Although the hits that certain of the banks took in Russia and other emerging markets will have done some permanent damage to their capital bases, talk of any sort of credit crunch seems misplaced.

Stresses certainly persist in the corporate bond market, however. In relieving the problems here through a general monetary loosening, the Fed has set off explosive growth in credit and in equity prices without yet satisfactorily curing the problem on which it has apparently been focusing.

High yield spreads remain 250 basis points above their levels earlier in the year, and spreads generally have narrowed only modestly from their peaks. Even the US Treasury market is softish, and one significant external indicator is that the normally higher-yielding UK gilts market is moving lower in terms of the 10-year benchmark yield.

This may reflect a cooling of the enthusiasm of foreigners for the US bond markets, perhaps because of their strategic diversification into the euro, perhaps because of a fundamental suspicion of the dollar.

The US securities markets are in apparent contradiction. The corporate bond market seems to be discounting a rise in credit risks because of imminent profit weakness. Equities, however, have bounded ahead, and stock market investors are clearly optimistic about corporate prospects.

But how would profit declines affect a market now valued at 33 times trailing earnings?

One historical precedent could be 1987, when many central banks were misled by a stock market crash into preparing for a 1988 recession that somehow never happened.

Alternatively, it is increasingly tempting to compare the Wall Street phenomenon with the Japanese bubble economy of the late 1980s. Eventually the Bank of Japan called a halt as the party got out of control.

The US Federal Reserve, however, for as long as it is relieved of worries about inflation, is happy to let the celebrations run on. Until Thanksgiving Day, anyway.

BANKING FINANCIAL PRESSURES CAUSED BY PROBLEM LOANS FORCE JAPANESE GROUPS TO WITHDRAW FROM GLOBAL EMPIRES BUILT IN 1980s

Toyo Trust quits overseas lending as bad loans take toll

By Gillian Tett in Tokyo

Toyo Trust, one of Japan's large banks, is to withdraw from overseas lending by March 2001 as part of a broader restructuring.

Yesterday's announcement came as Toyo revealed plans to write off Y290bn ($2.4bn) of its Y470bn problem loans in fiscal 1998 and forecast that this would push it into a Y162bn pre-tax loss.

The move provides a further illustration of the financial pressures forcing Japanese banks to withdraw from the global empires they built in the 1980s.

In recent weeks Daiwa, another large bank, has announced plans to withdraw from overseas business, and Sanwa, another large bank, announced yesterday it would sell Sanwa Business Credit Corporation, its US subsidiary, to Fleet Financial, the US group.

Toyo's problems were repeated across the banking sector yesterday in the results of eight other large banks: Industrial Bank of Japan, Long Term Credit Bank, Mitsubishi Trust, Mitsui Trust, Sumitomo Trust, Chuo Trust, Nippon Trust, as well as Long Term Credit Bank, which will soon be nationalised.

Yesterday's results showed that Japan's largest 18 private banks, excluding LTCB, collectively held Y18,900bn in problem loans, measured by US standards at the end of September. The other 10 banks reported last week.

This total was slightly lower than the Y20,000bn of problem loans the banks reported at the end of March, partly because they made Y2,000bn of write-offs during the first half.

However, Standard and Poor's, the US credit rating agency, yesterday said the bad-loan total did not appear to be falling as fast as the write offs – implying that the economic downturn is creating "new" bad loans.

It also warned that any move by the banks to make large write-offs in the second half could further strain their capital-adequacy ratios, unless they restructured or sought other ways of boosting their capital base.

The banks yesterday insisted that their ratios were well above international standards, ranging from 8.19 per cent at Nippon Credit Bank to 13.69 per cent at Yasuda Trust.

However, the ratios do not take account of latent net losses on securities holdings incurred as a result of the fall in the Nikkei between March and September. Nearly all the banks indicated they were carrying losses, ranging from Y305bn at Yasuda Trust to Y18bn at Nippon Trust. The only exception was Mitsubishi Trust, which posted a Y103bn profit.

These latent losses could weaken the banks' capital bases if the stock market does not rebound before next spring. The banks' plans to make more bad-loan disposals in the second half will exert further pressure.

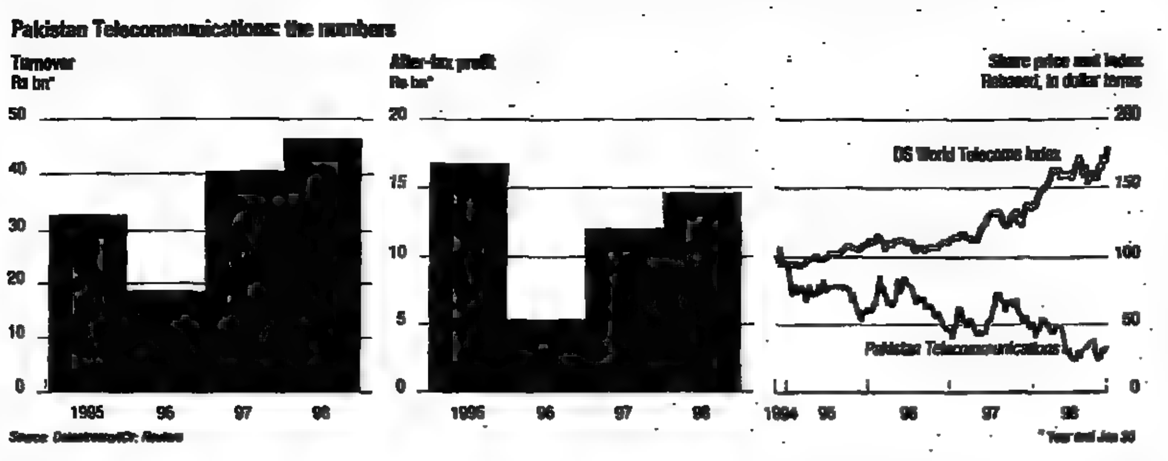
Among the trust banks, Mitsui Trust forecast the largest bad-loan write-offs, worth Y370bn for the entire year. Meanwhile, Mitsubishi Trust said it would write off Y330bn of its Y857bn problem loans, and Sumitomo Trust expected a Y210bn write-off of its Y1,190bn in bad loans.

However, among the "long-term credit banks", Industrial Bank of Japan projected a Y600bn write-off, from its stock of Y1,490bn problem loans, and Nippon Credit Bank forecast a Y735bn write-off for the entire year, out of its Y1,780bn bad loans.

These write-offs will leave banks such as Mitsui Trust, Chuo Trust, Nippon Credit Bank and Industrial Bank of Japan with large pre-tax losses in the current financial year. However, all the banks, apart from Bank of Tokyo Mitsubishi and Nippon Trust Bank, indicated they were planning to apply for government funds to expand their capital base.

PTCL hopes for economic boost as new sell-off looms

An IMF deal may help sale of 26% of Pakistan telecoms group, writes **Farhan Bokhari**



The economic fall-out of Pakistan's decision to test nuclear weapons in May bit deep into the nation's corporate sector as western economic sanctions cut into share prices.

But months of economic uncertainty could be coming to an end as talks between the government and the IMF move towards a preliminary agreement for a loan of between $500m and $700m.

An agreement, which senior government officials say could be finalised this week, would be the first step towards securing a $5bn international assistance package to help Pakistan continue its foreign debt repayments.

Such good news is likely to boost further the share price of Pakistan Telecommunications Corporation, one of the few to have remained relatively unscathed since May.

"Attractive in the long term", "good if you can stick it out" and attractive in an "underdeveloped telecoms market with monopoly status and strong cash flow" have become familiar pieces of investment advice.

There could not have been more comforting news for prime minister Nawaz Sharif's government, which still aims to sell 26 per cent of the company's shares under the next phase of the telecom privatisation plan, along with transferring the company's management. The first stock of the company's 12 per cent shares were sold in 1994 to individual investors in Pakistan and abroad.

The company's latest results for its July-June financial year reflected its ability to grow even as Pakistan's economic growth remained sluggish. The after-tax profit of Rs14.598bn ($29m) was 16.5 per cent higher than a year ago, while total revenues were Rs46.466bn, up more than 12 per cent on the year before.

Some economists, however, warn that the current year may see a downturn, driven by the country's increasingly weak economic outlook reflected in a slowdown in exports and imports and declining industrial production. Critics say that even if a deal with the IMF and other lenders comes through, PTCL would suffer from the consequences of an economic slowdown.

"Even if the company's core earnings remain unaffected, the economic uncertainty would filter in to the price of the PTCL," says Sakib Sherani, economist at ABN-Amro bank in Islamabad.

Years of delay in beginning the PTCL's privatisation has already damaged investor sentiment. "The PTCL may have missed the bandwagon of telecom privatisations in 1994 and 95, which doesn't help," says Mr Sherani.

Government officials concede privately that the final price offered by prospective buyers for the company could be a sore point. Like other companies in Pakistan's bloated and unprofitable public sector, PTCL has a deeply entrenched bureaucracy which is likely to resist privatisation, knowing that their own influence would be heavily trimmed.

Some analysts also say that despite remaining profitable owing to its monopoly, the group would eventually have to lose up to half of its 60,000 staff – a step sure to be resisted by its union.

But the process is advancing and the company says that the appointment of Goldman Sachs as its financial adviser this year is a significant step forward. Nasim Mirza, PTCL chairman, says: "Our main job and that of Goldman Sachs is to prepare the company for privatisation in the next four to five months."

Mr Mirza is convinced that Pakistan's recent economic troubles should not jeopardise the company's future. Unlike most other public-sector companies, PTCL's earnings in part are driven by the inflow of foreign exchange through callers from outside the country.

"For every call from Pakistan, there are six coming in from outside. That would keep our international business revenue reasonably intact," he says.

Suhail Ahmar, telecoms analyst at Karachi's Khadim Ali Shah Bukhari brokerage, says: "PTCL is the only dollar-earning company in this market. In the next year alone, perhaps 40 per cent of the company's revenue could be in foreign exchange."

The bulls also say that the country's economic troubles could have an important silver lining: if the government succeeds in putting together an international rescue package to avoid a foreign debt default, it is likely to accept new reforms for its public sector.

The government has already announced plans to seek help from the military to reform the Water and Power Development Authority, the main power utility, to cut its growing financial losses. With such a precedent, reforms in companies such as PTCL could gather pace on the back of another opportunity for radical solutions to chronic problems in the public sector.

Kawasaki Steel to farm out LSI production

By Alexandra Harney in Tokyo

Kawasaki Steel, the Japanese steelmaker, is stepping up plans to revamp its lossmaking semiconductor division by farming out production of LSI (large scale integrated) devices to non-group companies.

The move highlights the Japanese steel industry's recent rationalisation of its chipmaking operations in the wake of the collapse in global memory prices and the slowdown of the Japanese economy.

In September, Nippon Steel, the industry leader, sold its semiconductor operations to United Microelectronics, a speciality memory group based in Taiwan.

Kawasaki said it was in talks with several companies to commission production of LSI, which are devices used in office equipment. It refused to comment on reports that it had agreed a deal with United Microelectronics.

The announcement confirms indications that Kawasaki would withdraw from the production of semiconductors and focus exclusively on design operations in an effort to improve profitability of its LSI business.

The engineering division, which includes semiconductors, is expected to generate Y4bn ($33m) in pre-tax losses this year, according to Salomon Smith Barney.

In response, Kawasaki has been shifting production of individual chips overseas. In May, the group began to commission production of ASIC chips to Chartered Semiconductor Manufacturing of Singapore. However, it has kept some ASIC operations at its Utsunomiya plant, outside Tokyo.

ASIC (application specific integrated circuit) chips represent the bulk of sales in its memory division, the company said.

The group does not manufacture dynamic random access memory chips, which have been hit by a surge in overcapacity and consequent collapse in prices recently.

In the six months ending in September, net profits fell 23 per cent to Y4.02bn on turnover of Y426.82bn.

The group, which has suffered heavy losses on property holdings and from Kawasaki Enterprises, its equipment leasing subsidiary, expects after-tax consolidated losses of Y73bn, against profits of Y8.46bn last year.

This year, Moody's, the US credit rating agency, put its consolidated debt – currently rated Baa2 – under review for a downgrade.

Analysts said the move was expected, but that it was still unclear whether Kawasaki would be able to return its memory division to profitability this year.

"The strategy and the general direction are good, but it will be some time before we see any results. Last year, they said they were going to bring it into the black, but that still has not happened," said Toru Nagai, industry analyst at Morgan Stanley.

Shares in the steelmaker gained 3.1 per cent to close at Y198 yesterday.

April may renegotiate share swap

By Greg McIvor in Singapore

Asia Pacific Resources International (April), the Singapore-based pulp and paper group, may seek to renegotiate the terms of a proposed share swap with Finland's UPM-Kymmene or make a rights issue to avert a possible delay to their joint venture.

The two companies last year agreed to swap stakes of 30 per cent in each's fine paper operations, but the handover has been delayed by financing problems at April because of the Asian economic crisis.

The groups, which have already restructured the venture, have pledged to execute the swap by the end of 1999.

However, this deadline will be difficult to meet because April cannot obtain finance to complete the last of three new paper machines. The deal depends on completion of all three machines.

Sukanto Tanoto, April chairman and chief executive, said the company might make a rights issue to help raise the $210m necessary to finish construction of a second fine-paper machine at Riau in Indonesia.

An alternative solution would be to renegotiate the UPM-Kymmene deal and limit the share swap to stakes of 20 per cent, he said. The Sukanto family, which controls April, was prepared to participate in such an issue.

"We may be able to have a partial swap. Of course you need both sides' agreement for that," Mr Sukanto said in an interview with the Financial Times.

He acknowledged that time was running out to finish the machine on time as 11-12 months of work remained.

Daihatsu slides 72% at halfway

By Alexandra Harney

Daihatsu, Japan's second biggest minicar maker, suffered from its heavy exposure to the domestic market and sluggish sales overseas in its first half, as pre-tax profits at the Toyota Motor affiliate collapsed 72 per cent, from Y9.03bn to Y2.52bn ($21m).

Sales were down 18 per cent to Y326.03bn.

Demand for cars and trucks collapsed as Japanese consumer sentiment deteriorated over the past year, triggering restructuring across the industry.

Unlike other Japanese carmakers, which have offset the downturn in domestic demand by increasing shipments to the US and Europe, its overseas sales shrank. While sales in Japan fell 16.4 per cent to Y266.18bn, export volumes were down 24 per cent to Y59.84bn.

Domestic sales accounted for 82 per cent of turnover.

Minicars, the group's largest division, saw the biggest decline, tumbling 14 per cent to Y170.44bn. This fall reflected market trends: sales of minicars in Japan fell 8 per cent in the first six months of the year beginning in April, according to Jardine Fleming in Tokyo.

However, volumes rose at its small-car division. Overseas sales of small cars jumped 52 per cent, driven by the popularity of Terios, a four-wheel drive model, in Europe.

Analysts said the results were slightly below expectations, but that Daihatsu should benefit from a recovery in the domestic minicar market in the second half as a result of a change in regulations that came into effect in October.

Daihatsu said that sales of three new minicar models launched in October – the Move, the Terios Kid, and the Mira – were already exceeding company targets.

In the year ending in March, it expects profits will be flat at Y6.8bn, on sales down 3 per cent to Y760bn.

Shares in the group rose Y10 to Y460 in a rising market.

MUSIC PUBLISHING ANGER OVER SEAGRAM CHOICE FOR HEAD OF ENLARGED DIVISION

Job row looms at PolyGram

By Alice Rawsthorn

Seagram, the Canadian entertainment group, faces a dispute within the management of PolyGram, the Dutch music company for which it has mounted an $11bn bid, over the appointment of the head of its enlarged music publishing division.

Officially, Seagram has yet to name the new chief executive of its music publishing interests after it has merged PolyGram with its own Universal Music subsidiary.

However, PolyGram executives say that, according to integration documents distributed internally within the two companies, Seagram is set to appoint David Renzer, the US executive who runs Universal's music publishing arm, rather than David Hockman, his opposite number at PolyGram.

It is understood that Mr Hockman, who has built PolyGram's publishing arm from scratch since 1986 to make the world's third largest music publisher, has not been officially told of any decision by Seagram.

He discovered that the job was likely to go to Mr Renzer when a colleague at PolyGram's UK headquarters showed him the reference to it in the integration document. Universal declined to comment yesterday.

One senior PolyGram executive said that staff were "incensed" by the affair. "They've been stringing David along for months, which is bad enough, but not to tell him that they've chosen someone else is outrageous," he added.

Although many senior positions in the new music division have gone to Universal executives, Mr Hockman was seen as a strong contender for the publishing post, not least because PolyGram's publishing arm is much larger than Universal's.

PolyGram administers roughly 440,000 publishing copyrights, including those of U2, Metallica, Bob Marley, Elton John and Abba. Universal's publishing division owns 200,000 copyrights, and operates in 12 countries, compared with 40 for PolyGram.

The row over the publishing appointment comes at a sensitive time when Seagram is poised to complete the PolyGram bid after a lengthy delay while it cleared the deal with anti-trust authorities and the US Securities & Exchange Commission. Seagram announced the terms of the deal in May and expects to complete early next month.

After completion, Seagram is expected to shed nearly 20 per cent of PolyGram and Universal's 15,500-strong combined workforce in order to achieve annual cost savings of up to $300m. Seagram is anxious to raise morale among the staff who stay on after the merger and also to conclude negotiations with some of the PolyGram executives it wants to retain.

U2: their copyright is administered by PolyGram

Income falls at Anglo American

By Greta Steyn in Johannesburg

Anglo American, the South African mining and industrial conglomerate which is set to move its primary listing to London next year, yesterday announced a fall in net income. This reflected weak international demand for commodities and restructuring of the group's investment portfolio.

Income after tax fell about 13 per cent in the six months to end-September to R4.3bn ($753m) compared with the same period last year.

The figures were, however, distorted by a sharp fall in the group's income from realising investments.

Anglo American has been selling off non-core investments for the past two years in an effort to become more focused. In the six months to September last year, the sale of mining group JCI in a "black empowerment" exercise resulted in a big surplus on realisation of investments, which was not repeated this year despite the group continuing to divest from non-core assets, such as Lonrho.

Adjusted for one-off charges on the income statement – such as the effects of the group's restructuring – earnings were down 5 per cent, which was weaker than analysts had expected.

The group's diamond interests, via De Beers, contributed only 19 per cent to earnings, compared with 24 per cent at last year's interims. World demand for diamonds has been dented by the Asian crisis and the slowdown in global growth.

Julian Ogilvie Thompson, Anglo American chairman, said the group would continue to restructure as it prepared for a listing in London, which was expected to take place before the end of March next year.

Divestments that were planned included AECI, the chemicals company, and SA Breweries, the industrial conglomerate and brewer. Minorco, the minerals company which will be merged with Anglo to create Anglo American plc, would also sell non-core assets.

Although the London listing would facilitate access to international capital markets, the company had no intention to raise equity capital in London in the short-term, "or even the medium-term," Mr Ogilvie Thompson said.

Deutsche Bank needs DM6bn for US buy

By Tony Barber in Frankfurt and George Graham in London

Deutsche Bank is expected to have to raise close to DM6bn ($3.5bn) of additional capital to help finance its planned $9.7bn takeover of Bankers Trust, the US wholesale and capital markets bank.

Jürgen Krumnow, a member of Deutsche's management board, told reporters in Frankfurt that the bank had not made up its mind how to finance the purchase, which would be the most expensive takeover of a US bank by a foreign institution. "The structure has not yet been decided," he said.

But fresh capital is expected to be necessary to allow Deutsche to absorb Bankers Trust without letting its capital-adequacy ratios slip below internationally accepted standards.

The bank's shares fell more than 6 per cent on Frankfurt's Dax exchange yesterday as investors began to question whether Bankers Trust was exactly the right match for Deutsche and whether the acquisition price was too high.

International ratings agencies meanwhile put Deutsche's ratings on review for a possible downgrade as they assessed the implications of the proposed acquisition.

"Buying Bankers Trust will clearly increase the overall risk profile of the group," said Samuel Theodore, managing director of Moody's Investors Service.

Bankers in Frankfurt said it was unlikely that Deutsche would need to sell part of its roughly 12 per cent stake in DaimlerChrysler, the newly merged German-US industrial giant, or any other of its shareholdings in German industry.

They expected Deutsche to pay for Bankers Trust largely by means of a mixture of cash and accounting adjustments.

Deutsche would be required by regulators to deduct $5bn of goodwill included in the purchase price from its capital base for the calculation of its capital adequacy ratios.

The bank's current Tier 1 capital ratio stands at 5.1 per cent, not much above the internationally accepted minimum of 4 per cent. However, Deutsche is understood to have been allowed by German banking regulators to use international accounting standards, which would incorporate some of its undisclosed reserves and take the ratio to 6.2 per cent.

The cheapest form of Tier 1 capital would probably take the form of a silent partnership, a peculiar German corporate form which Deutsche has already issued.

Mr Krumnow said the acquisition, assuming it was approved by regulatory authorities, would cause some job losses in areas such as trading, where the two banks' staffs currently overlapped.

In the US, where Bankers Trust is expected to dominate the new investment banking business, Deutsche may shed some of its 2,000 staff.

PointCast close to a deal with investor

By Christopher Price

PointCast, the US internet technology group, said yesterday it was close to signing an agreement with a strategic investor following its decision to pull out of a listing on the Nasdaq market earlier this year.

The loss-making company, which pioneered "push" computer software, enabling news and information to be selected via the Internet and directed to users' PCs, has been in talks with a number of potential backers for a capital injection in return for a minority stake.

Robert Sofman, PointCast senior vice president of business development and international operations, said yesterday that talks with at least half a dozen potential investors had been whittled down to one.

Last year, PointCast pulled out of a reported $400m deal with Rupert Murdoch's News Corporation. The US group has also been linked with some of the big internet service providers. It has recently launched its own internet portal, which would be of interest as a front-end point of service for some ISPs.

In its IPO filing in July, PointCast was seeking to raise about $50m and looking for a valuation of $250m.

Australia looks to 'mega-force'

By Gwen Robinson in Sydney

News of the proposed merger between Bankers Trust and Deutsche Bank has fuelled speculation about the creation of a "mega-force" in Australian banking and the revival of an earlier plan by local executives of Bankers Trust Australia to launch a management buyout of Bankers Trust's profitable Australian business.

BT Australia (BTA), which includes Bankers Trust's global funds management business, has not commented on the developments at Deutsche Bank and Bankers Trust.

But BTA management, including Rob Henderson, the managing director, is known to have raised the possibility of a partial or full MBO of Bankers Trust's Australian business in the last two months, reviving a proposal first aired several years ago.

Bankers Trust Australia is Australia's largest and most profitable foreign bank and has recently become the group's most profitable division worldwide, with strong operations in fund management, investment banking and private client services.

In the nine months to September, it recorded net profit of A$158m (US$101m) – including a third-quarter profit of $38m, against the Bankers Trust group's overall net loss of A$488m. Morgan Grenfell (Australia), Deutsche Bank's local arm, became Australia's biggest broker by volume and 10th largest funds manager following purchase last year of the government-owned Axiom group and a broker.

Bankers Trust Funds Management, the group's global funds management business, is the country's second largest funds manager – behind AMP, the insurance and financial services group – with about A$37bn under management. The combined strengths of Deutsche and Bankers Trust would create Australia's biggest funds manager, stock broker and foreign bank.

In funds management alone, the two would have combined funds of more than A$60bn, ahead of AMP with about $57bn. Several Australian banks have expressed interest in acquiring Bankers Trust's asset management operations and would almost certainly make an offer to match any proposed BTA management buyout.

Deutsche would be reluctant to let go of Bankers Trust's profitable Australian operations, said analysts. But the value of the Australian business at A$2.5bn-$3bn, or up to one-third of the merger's estimated total value, would most likely appeal as a way of diluting the takeover costs.

If the merger proceeded, it would increase pressure on the Australian government from local banks to lift the ban on mergers between the top four Australian banks.

It would also trigger one of the biggest shakeouts to take place in Australia's financial services industry. Analysts estimate up to 1,000 jobs would be lost out of a total 3,800 in Deutsche's and Bankers Trust's Australian operations, with the rationalisation of overlapping operations.

TELEVISION FRENCH GROUP SEEKS RAI SUPPORT TO FEND OFF MURDOCH CHALLENGE

Canal Plus set to sell 10% stake in Telepiù

By Paul Betts in Milan and Samer Iskandar in Paris

Canal Plus, the French pay television group, is set to sign an agreement next month with RAI to sell the Italian state broadcasting network a 10 per cent stake in Telepiù, the Italian pay TV group 90 per cent controlled by Canal Plus.

The move is part of the French group's campaign to fend off a growing challenge from Rupert Murdoch and BSkyB, controlled by his News Corp company, in the Italian pay TV market.

On Monday Mr Murdoch announced the setting up of a News Corp Europe subsidiary based in Milan to expand his television activities in Europe.

Canal Plus is understood to have already reached a preliminary agreement with RAI that is expected to be finalised before Christmas.

This would see RAI pay an undisclosed sum half in cash and half by providing television programmes over a three year period to Canal Plus.

The French group is also seeking to entice other Italian partners to its Italian pay television network including Wind, the recently established telecommunications joint venture between Enel, the Italian state electricity utility, France Telecom and Deutsche Telekom, as well as other Italian companies such as Olivetti and Banca Commerciale Italiana.

Canal Plus would like to shed about 35 per cent or more of its 90 per cent stake in Telepiù to Italian partners. Fininvest, the holding company of Silvio Berlusconi, the former prime minister and media tycoon which controls the Mediaset commercial television group, owns 10 per cent of Telepiù.

The French group has been seeking to attract Italian partners to satisfy Italian political demands for a significant Italian stake in the pay TV network.

Canal Plus has also intensified its efforts to secure Italian partners as a way to counter Mr Murdoch's latest efforts to penetrate the Italian television market.

Mr Murdoch is also in final negotiations with Telecom Italia to acquire a 39 per cent stake in the Italian privatised telecommunications group's Stream subsidiary which plans to launch a rival Italian digital pay TV network to Telepiù. France's TF1 network and a rival of Canal Plus is also planning to acquire a 10 per cent stake in Stream.

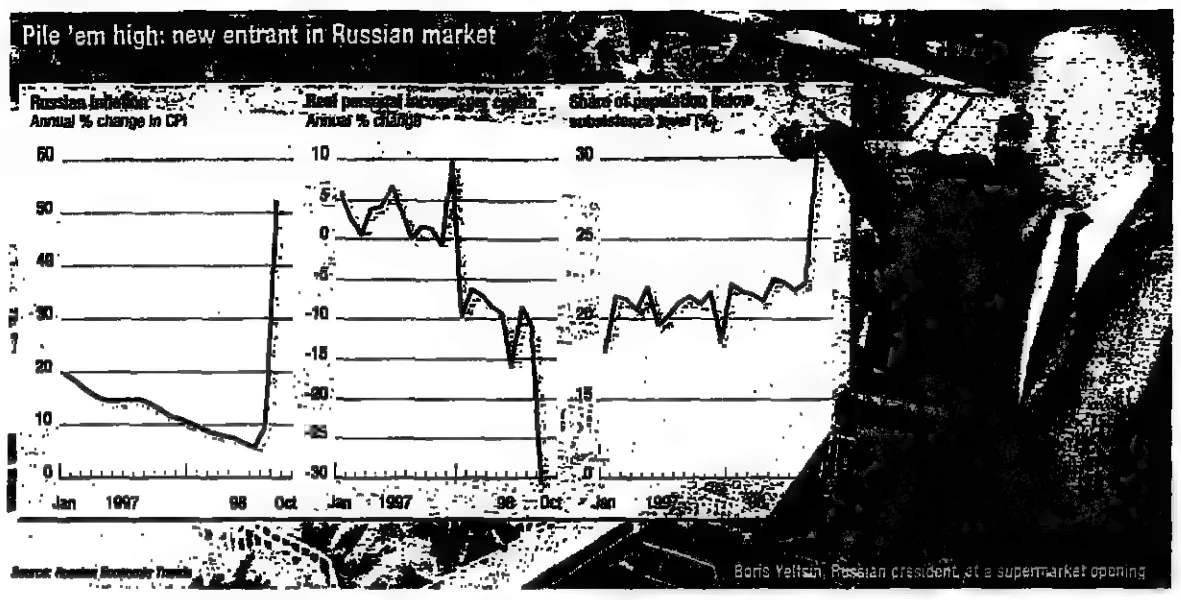
Canal Plus shares ended a volatile session at FFr1,328, up 0.6 per cent, after reaching a high of FFr1,363.

Analysts said it was too early to assess the impact of yesterday's announcement, which explained the low trading volumes.

"Forecasting the outlook for Canal Plus is becoming almost impossible, with so many factors still up in the air," said Morgan Stanley Dean Witter, the US investment bank, in a report on the French pay-TV company.

New hypermarket ignores Russia's economic chill

A Turkish company is sticking with its bold plan to open a shopping centre in Moscow this week, writes **Andrew Jack**



Boris Yeltsin, Russian president, at a supermarket opening

The August economic crisis may have chilled the prospects for many Russian retailers long before the arrival of winter snow, but one hypermarket operator is still going ahead with an ambitious venture in Moscow this week.

Floors are still being polished and shelves are being filled but the 28,000 sq m Ramstore shopping centre in the suburbs of Moscow is almost ready to be inaugurated by Yuri Luzhkov, the city's mayor, tomorrow. Surrounding the hypermarket is a three-storey mall with a food hall and a four-screen cinema.

The imported food, consumer electronics and luxury clothes on sale may appear out of the price range of most Russians – many of whom have not been paid for months – but the company predicts that it will attract 20,000 customers a day. "Average income per head in Russia is high enough for us," says Aziz Bulgu, managing director of Ramenka, operator of the complex. He says the purchasing power of the company, which opened a smaller shopping centre in another part of the city last year, allows it to offer lower prices than the city's open air markets, just when consumers most need competitively-priced produce. About 40 per cent of stock is provided by Russian suppliers, whose goods usually sell for less than the imported equivalents.

The company's purchasing power allows it to offer lower prices than the markets

While Moscow has no shortage of corner stores and kiosks full of food, the city knows little of the modern hypermarket. A number of Western retailers have been eyeing the Russian market closely over many past few months, but "things have gone very quiet since August", says one local financier. He argues that successful projects require long-term relationships with influential personalities, and Ramenka has been discussing projects since the early 1990s.

Greg Thain, head of GFK market research in Moscow, said: "Russian stores have been fragmented up to now. Foreign investors have been concerned about the perceived threat of the mafia, and thought 'why go as far as Russia when there are nearer markets to develop'. But we believe there will be eight to 10 hypermarkets in Moscow by the end of 1999."

Mr Bulgu suggests that his company's bullish view reflects the mentality of its Turkish backers: the business is owned by the construction group Enka and the Koç Group, which runs the 200-strong supermarket chain Migros in Turkey. "Everyone went into a panic during the economic crisis in Russia," Mr Bulgu says. "But we are used to uncertainty, devaluation and 70-80 per cent inflation in Turkey."

He says that the existing Ramstore in Moscow suffered only briefly after the abrupt devaluation in August, when customers either bought in a panic or stopped all purchases as the rouble fluctuated sharply against the dollar. "We had to change our prices every evening," he says. The quantity of Russian-supplied goods also rose from 30 per cent to the current 40 per cent during the period. He adds that the store is on line to break-even in just over seven years.

The company has a 49-year lease on its new site, granted by the Moscow city government, and has taken steps to protect itself from the risks that sometimes accompany highly-visible businesses in Russia. It is paying the salaries of policemen to provide security around the complex, as well as private security staff inside the shops.

Financing for Ramenka's retail developments to date has cost $80m, including an unusual loan to a commercial project from the International Finance Corporation, the World Bank's private sector financing arm. But much of the money has and will continue to come from the cashflow generated from its existing operations.

Income includes sales from its hypermarkets, but also rental from the franchises in its malls. The new centre opening this week includes McDonald's, Yves Rocher and Hallmark outlets. The luckiest local retailer is the BP petrol station already on the edge of the site, which will make no contribution to Ramenka while benefiting from the additional business.

The company plans a third centre in Moscow next year, and also similar developments in Saint Petersburg, Novosibirsk, Rostov and Nizhny Novgorod.

Investors enthusiastic for France Telecom offer

By Samer Iskandar in Paris

More than 2.3m individual investors have booked shares in the FFr60bn ($10.5bn) secondary offering of France Telecom, the partly privatised telecommunications operator, prompting the French government to exercise an over-allotment option, increasing the offering by 15m shares.

Demand was bolstered by the strong recovery in the share price, which has risen more than 13 per cent since the transaction was launched on November 9.

France Telecom shares closed yesterday at FFr421, up FFr1.

The end of the booking period on Monday also signalled the beginning of the book-building process, which will lead to the final pricing of the offering next weekend.

Under the Paris stock exchange's open price rules, Banque Nationale de Paris and Paribas, respectively lead manager and co-lead manager, will gauge demand among French investors before setting the final price. Dominique Strauss-Kahn, finance minister, set a maximum price of FFr420, equivalent to Monday's closing price. Institutional investors will pay FFr10 more.

If the offering is oversubscribed, individuals who have booked up to FFr30,000 of shares will be awarded at least twice as many as other investors. A clawback option also allows the co-ordinating banks to re-allocate some 7m shares from institutions to retail investors.

After the transaction the state's stake in the company will fall from 75 per cent to just over 62 per cent.

Another 2 per cent stake will be sold directly to Deutsche Telekom, the recently-privatised German operator, as part of a long-term co-operation agreement involving cross-shareholdings between the two companies.

See Lex

Stopanska loses deal with Erste Bank

By Kevin Done, East Europe Correspondent

Erste Bank, the second largest publicly-quoted Austrian bank, is pulling out of its planned investment which would have made it the strategic investor in Stopanska Banka, the leading bank in Macedonia.

The withdrawal is a serious setback for Macedonia, which has lagged behind all other countries in former communist central Europe in attracting foreign investment. It regarded the Stopanska deal earlier this year as the key move in restructuring the country's troubled financial sector.

Erste Bank said last night that it had decided to abandon the deal in order to focus "more strongly on its core competencies and markets".

Its withdrawal leaves its partners – the European Bank for Reconstruction and Development and the International Finance Corporation, the private sector finance arm of the World Bank – in an embarrassing vacuum without a strategic investor to lead the reorganisation of Stopanska.

Under the terms of the deal announced earlier this year, the consortium of Erste Bank, EBRD and IFC was to have acquired a 55 per cent stake in Stopanska for about $20m, in one of the biggest foreign investments yet made in the former Yugoslav republic since it gained independence in 1991.

Stopanska was to acquire a stake of 25 per cent with the IFC and the EBRD each investing about $5.4m for stakes of 15 per cent.

Erste Bank said that the original plan to invest in Stopanska had been made by one of its predecessor institutions GiroCredit.

It said that the recent turbulence on international financial markets had prompted it to focus more strongly on its core markets, which did not include Macedonia.

Erste Bank said that it would continue to support current projects such as the transformation of Stopanska Banka's information technology systems.

Losses in Asia but global gains for Ahold group

By Gordon Cramb in Amsterdam

Ahold, the Netherlands' leading supermarkets group, showed an unexpectedly large widening of losses in Asia, and its shares dipped in spite of a 22.3 per cent rise in worldwide net earnings to Fl 256.5m ($135m) in the third quarter.

Earnings per share, held back by equity issues to fund international acquisitions, were 12.5 per cent higher at 44 cents compared with 39 cents. The shares closed Fl 2.40 lower in Amsterdam yesterday at Fl 66.50 after touching Fl 65.20.

The operating loss in Asia, where Ahold has been opening outlets in Thailand, Malaysia and China, was Fl 33.8m in the 12 weeks to October 4, compared with Fl 26.6m for the corresponding period a year ago.

The group had indicated its intention to reach break-even in the region by 2000, a target which analysts have begun to question.

The overall figures were slightly below the average of broker forecasts.

In the US, its biggest market, operating profits were 18.1 per cent ahead at $145.8m, but a weakening in the dollar meant this did not translate as strongly in guilder terms.

Ahold's latest purchase, the Maryland-based Giant Food, will be consolidated in its earnings only from the current quarter. With the operational integration of Giant described as ahead of schedule, the group named Dick Baird to run the chain. He moves from Stop & Shop.

Operating results in the Netherlands were 10.6 per cent higher at Fl 153.8m. Rises were also recorded in the rest of Europe and in Latin America. Global sales moved up 2.4 per cent to Fl 12.59bn.

The group re-affirmed a forecast that full-year net profits, as well as earnings per share, would show growth in the range of 12-20 per cent compared with 1997.

NEWS DIGEST

ENGINEERING

Deutsche Babcock sees strong earnings growth

Deutsche Babcock, the German engineering group, said yesterday it expected double-digit growth in earnings after taxes and minorities for the year ending September 30. The group, which last time posted earnings of DM239m ($140m) also forecast increases in sales and incoming orders. It said it expected incoming orders of about DM8.5bn and turnover of about DM9bn.

Klaus Lederer, chief executive, said the group would consolidate its seven divisions into five, helping it make a profit of at least DM50m in 1998/99, after breaking even in 1997/98. "This year, all seven business areas were in the black and the five new ones will be next year," he said. The group has not made an operating profit since 1994.

This year it expects to roughly double 1997/98's DM50m profit before taxes and minorities. Sales were expected to rise from DM8.1bn to DM9bn.

Mr Lederer said the group would be buoyed by its mid-year agreement to buy power plant builder Steinmüller from Philipp Holzmann. He said the move would make Babcock the world's third largest boilermaker and it could become number two or one if current "co-operation" talks with Foster Wheeler of the US or capital goods maker Babcock Wilcox bear fruit. Reuters, Oberhausen

PAPER

Stora, Enso merger close

The European Commission is today expected to give a green light to the merger of Stora and Enso, the Swedish and Finnish groups, whish will create the world's largest paper producer. An official said the Commission – which vets large cross-border mergers in the EU – had accepted changes made by the two companies and did not intend to impose any conditions on the deal. When Brussels extended its probe in July, it said it objected to the high share of the liquid packaging market that the merged entity would win. It was also worried that the merger would substantially increase concentration in the newsprint and magazine paper markets.

The official would not comment on the changes offered by the companies, which last week said they did not involve divesting any board or paper capacity. Aggrieved competitors could still trigger a separate investigation by the Commission if they complain that the merged company is abusing its dominant position.
Emma Tucker, Brussels

GREECE

Global Finace plans new fund

Global Finance, the Greek venture capital fund manager, has launched a new closed-end fund to invest in medium-sized companies in eastern Europe and the former Soviet Union, despite continuing instability on Russia's financial markets. Greek and international investors have committed a total of $62m to the Black Sea Fund, a private equity fund, against a target of $100m set when subscriptions opened early this year amid forecasts of rapid economic growth in the region.

Angelos Plakopitas, managing director of Global Finance, said investors in the BSF included Greek entrepreneurs and shipowners, as well banking and insurance groups. The minimum participation was set at $1m, he said. The European Bank for Reconstruction and Development and the International Finance Corporation, the World Bank's private sector lending arm, are committed to taking stakes of 30 per cent and 20 per cent respectively in the BSF, he said. **Kerin Hope, Athens**

STEELMAKING

Usinor in rail equipment sale

Usinor, the French steelmaker, has agreed to sell its Valdunes and RTM railway wheel and axle manufacturing subsidiaries to Freedom Forge of the US. Valdunes is the main European producer in its sector, forging 110,000 wheels a year and generating annual sales of FFr560m ($98m). Pennsylvania-based Freedom Forge supplies around 170,000 wheels and 80,000 axles a year to the North American market and will have 1998 sales of some $170m. Usinor said the new group would be able to deliver nearly 400,000 forged wheels a year, making it the world's leading producer. *David Owen, Paris*

ENERGY

Lukoil and Gazprom sign deal

Lukoil and Gazprom, two of Russia's largest natural resource groups, yesterday signed an outline agreement for a wide-ranging strategic partnership covering future joint oil and gas exploration, production and marketing activities. Lukoil said there had been no formal co-operation between the two groups until now, although it acquired Gazprom's 15 per cent stake in a Kazakhstan oil field last year, signalling the start of links.

Lukoil said the agreement would cover future rather than existing operations, and could include future exploration. It said no financial split had been drawn up on such projects, but it expected them to take the form of a 50-50 share of costs and revenues. It said Gazprom would soon begin processing gas, polyethylene, fuel and lubricants extracted by Lukoil. *Andrew Jack, Moscow*

صكنا من الاجل

THE GERMAN PFANDBRIEF

Progress Report for Investors

Europe's largest bond market expands

German Pfandbriefe attract investor favor in record year

In spite of the global turmoil which led to unprecedented volatility in international bond markets following the Russian devaluation in August, 1998 has been another spectacularly successful year for the German Pfandbrief market in general and for the Jumbo Pfandbrief sector in particular. First launched in May 1995, Jumbo Pfandbriefe are straight bonds with a minimum value of DM 1 billion, which are supported by a commitment from at least three market-makers to quote continuous two-way prices during normal trading hours for lots of up to DM 25 million. By the beginning of October 1998, over DM 380 billion of Jumbo Pfandbriefe had been raised through 214 outstanding issues, with almost DM 60 billion in the third quarter of the year alone, leading some analysts to forecast that by the end of this year total outstanding volume will surpass DM 400 billion.

In the first half of 1998, more than 50% of all Pfandbrief new issue volume was accounted for by Jumbo bonds. Non-Jumbos are now usually referred to as traditional or classical Pfandbriefe, which offer lower liquidity levels but higher yields than the Jumbo instruments. All Pfandbriefe, which at DM 1.8 trillion outstanding account for some 38% of the entire German fixed-income market, are backed by the same outstanding collateral in the form of mortgages and loans advanced to the public sector (75% of all Pfandbriefe outstanding are Public Pfandbriefe). This, backed by the support of double legislation in the form of Germany's bank supervisory law and a specific legal framework governing the issuance of Pfandbriefe, has allowed the market to enjoy an uninterrupted period of some 100 years in which no investor has ever failed to receive payment of full interest and principal on a Pfandbrief issue held to maturity.

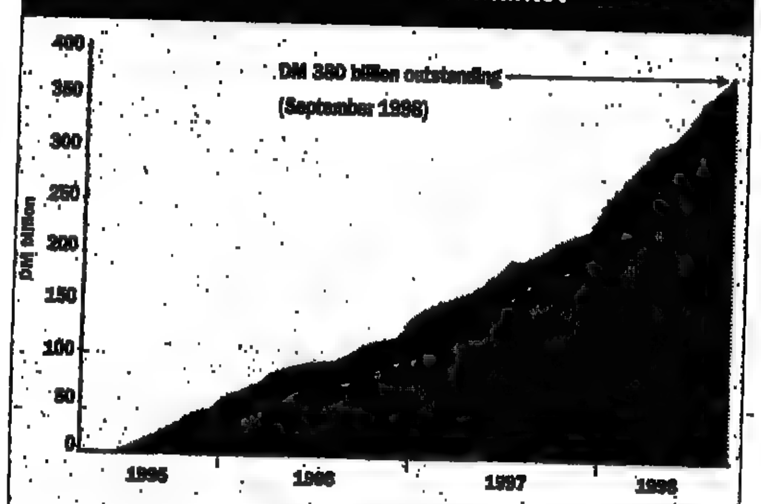
In addition to having attained very clear critical mass, the Jumbo Pfandbrief market is highly diversified in terms of maturities, with investors now offered a full yield curve made up of issues with tenors ranging up to fifteen years. While at the end of September 1998 the three to four-year maturity was the most popular among issuers, it accounted for only 14.8% of total outstanding Jumbo Pfandbriefe, with 12.9% of issues in the four to five-year maturity, 11.8% maturing between six and seven years and 10.7% in the nine to ten-year span.

Attracting more foreign investment

Its size apart, another highly encouraging development in the evolution of the Jumbo Pfandbrief market in 1998 has been the increased participation in the sector of foreign investors. While overseas investors bought just over DM 250 billion of non-government DM bonds in the whole of 1997 (the majority of which were accounted for by Pfandbriefe), in the first half of 1998 alone foreign purchases of non-government bonds amounted to DM 200 billion.

The increased involvement by foreign investors in the Jumbo market is a direct reflection of the two most prominent characteristics of issuers' strategies in 1998. These have been aimed at bolstering liquidity through the issuance of increasingly large Pfandbriefe on the one hand, and at continuing to diversify the investor base through the launch of bonds denominated in currencies other than D-Marks.

Growth of the Jumbo Pfandbrief Market



By the end of September, 26 Pfandbrief issues denominated in currencies other than D-Marks had raised the equivalent of some Ecu 7.4 billion, with 31.7% in French francs, 30.6% in ecus or euros, 21.3% in US dollars, 9.8% in sterling and the remainder in Swiss francs and Italian lire.

Passing the liquidity stress test in 1998

It is broadly recognized that Germany's Pfandbrief market in general – and its Jumbo Pfandbrief sector in particular – withstood the recent crisis in the global fixed-income market very successfully. Although spreads on 10-year Pfandbriefe widened against government bonds to more than 50 basis points at the height of the crisis, which compares to an average spread over the last 25 years of 26 bp, this performance was in line with other German fixed-income products, all of which widened considerably relative to Bunds reflecting the universal flight to government bonds sparked by the Russian turmoil. With European bond markets now stabilizing, and with spreads still above their historical average, Germany's Jumbo Pfandbrief market offers unprecedented value for investors searching for a combination of security, liquidity and a pick-up over government or surrogate government paper.

More important than the price performance of the Pfandbrief market during the crisis, however, was the successful maintenance of stability and liquidity in the sector. Market-makers continually posted two-way prices on all Jumbo Pfandbrief issues, ensuring that throughout the turmoil the market remained more liquid than even the Eurobond sector.

An important agreement was reached in August 1998 by a group of 17 market-makers who committed themselves to acting as repo dealers in the Jumbo Pfandbrief issues in which they had acted as lead or co-lead managers. Under the terms of this agreement, which applies only to Jumbo transactions with a size of at least DM 2.5 billion and a remaining life to maturity of more than two years, the market-makers are committed to quote continuous two-way prices for tickets valued at between DM 5 million and DM 25 million with a bid/offer spread not exceeding 25 bp.

Jumbo Pfandbrief future contract launched

Another new development in the Pfandbrief market in 1998 has been the launch on Eurex of the Jumbo Pfandbrief future contract. Official trading began on July 6, with the future modeled on the German government Bobl future. The Pfandbrief future is based on a notional 6% Jumbo issue with a maturity of between 3.5 and 5 years and a nominal amount of DM 250,000, as well as a parallel contract available since October with a euro-denominated value of 100,000 euros.

It would be premature to judge the long-term viability of the future contract. Important is that the creation of the future contract is meant to pave the way for investors and market-makers to hedge their Pfandbrief exposure far more efficiently than they have in the past. Historically, participants in the market were able to hedge their positions with the Bund future and the Bobl contract, which eliminated interest rate risks but not those associated with the spread between Pfandbriefe and government bonds.

Aside from the clear long-term benefits of a reliable hedging instrument in the Jumbo Pfandbrief market, the launch of the new future contract has underscored the commitment to the development of this market.

The Pfandbrief in Euroland

Following the formal launch of EMU at the start of 1999, the Pfandbrief market will emerge as comfortably the largest and most liquid non-government bond market segment within EMU. The importance of the sector is amply illustrated by the fact that Pfandbriefe will be classified as Tier 1 collateral for open market and lombard facilities by the European Central Bank. As such, it will be a market which no fixed-income investor in Europe, irrespective of location, can afford to overlook.

In anticipation of this, Germany's mortgage banks have played a very active role in ensuring that they make themselves as open and accessible to investors outside Germany as possible. Aside from having prepared themselves for EMU by launching an increasing number of Jumbo issues aimed at international investors, Germany's mortgage banks have already committed themselves to redenominating all their outstanding Jumbo issues into euros from the beginning of January 1999.

In addition, over 93% of Jumbo issues and their total volume outstanding are rated, and market participants believe this high figure can only continue to rise within the competitive environment which will be created following the launch of EMU when currency considerations will be replaced by a strong emphasis on credit quality. Of the Association's 24 member banks, 18 have had their Pfandbriefe rated. Already, a number of investors in Europe and from farther afield have responded positively to the endeavors of Germany's mortgage banks, building substantial positions in the Jumbo Pfandbrief market in readiness for EMU.

Most analysts believe that this process still has great potential. As Goldman Sachs noted in a study published in June: "We expect the Pfandbrief market, and in particular global public-sector Pfandbriefe, to become increasingly accepted by European and non-European investors alike and to eventually assume a position analogous to that of federal agency debt within the US dollar bond market."

Pfandbrief Ratings of private mortgage banks

awarded by Fitch IBCA, Moody's and Standard & Poor's (as of October 1998)

	Public Pfandbriefe			Mortgage Pfandbriefe		
	Fitch IBCA	Moody's	S&P	Fitch IBCA	Moody's	S&P
Allgemeine Hypothekenbank	–	Aa1	AAA	–	Aa2	
Bayerische Handelsbank	–	–	AAA	–		–
BfG Hypothekenbank	–	–	AAA	–	–	–
DePfa	AAA	Aaa	AAA	AAA	Aaa	–
Deutsche Hyp	–	Aaa	–	–	Aaa	–
Deutsche Hypo	–	–	AAA	–	–	–
Dexia Hypothekenbank Berlin	–	–	AAA	–	–	–
DG HYP	–	–	AAA	–	–	–
Eurohypo	–	Aaa	AAA	–	Aaa	AAA
Hypothekenbank in Essen	–	Aaa	AAA	–	Aa1	–
HypoVereinsbank	AAA	Aaa	AAA	AAA	Aaa	AAA
Münchener Hypothekenbank	–	Aaa	–	–	Aaa	–
Nürnberger Hypothekenbank	–	–	AAA	–	–	–
Rheinboden	–	–	AAA	–	–	–
Rheinhyp	–	Aaa	–	–	Aaa	–
Süddeutsche Bodencreditbank	–	–	AAA	–	–	–
Westfälische Hypothekenbank	–	Aaa	AAA	–	Aaa	–
Wüstenrot Hypothekenbank	–	–	AAA	–	–	–

Rewarding growth in the first half of 1998

In the first six months of 1998, Germany's private mortgage banks continued on a course of healthy expansion. New loan volume reached almost DM 200 billion, an increase of more than 22% over the comparable year-earlier period. Nearly three-fourths of the new business, DM 145 billion, was accounted for by lending to public-sector borrowers at the federal, state, and the regional levels.

Mortgage lending also recorded a surprisingly solid growth of 9.8% to over DM 51 billion, largely resulting from historically low interest rates in the first half of the year.

Reflecting expansion on the lending side, the mortgage banks also boosted their gross sales of Pfandbriefe. The volume of new issues was DM 183 billion, up about one-fourth over the same period in 1997. Some DM 140 billion were Public Pfandbriefe. Overall, the private mortgage banks succeeded in expanding their leading position on the Pfandbrief market, increasing their market share to two-thirds of new sales.

Germany's Mortgage Banks in Perspective

June 30, 1998	Total Germany DM billion	Mortgage Banks DM billion	Market share %
ISSUING			
Domestic bonds outstanding	4,006.8	1,260.0	31.5
Domestic bank bonds outstanding	2,594.1	1,260.0	48.6
Pfandbriefe outstanding	1,717.3	1,116.7	68.0
LENDING			
Residential property	1,579.2	382.6	24.2
Commercial real estate	374.3	178.0	47.6
Federal, state, municipal entities	899.7	499.0	55.5

GERMANY'S MORTGAGE BANKS

HYPOVEREINSBANK AG, MÜNCHEN
DEUTSCHE HYP, FRANKFURT AND HAMBURG
DEPFA, WIESBADEN
EUROHYPO AKTIENGESELLSCHAFT, FRANKFURT AND LÜBECK
RHEINHYP, FRANKFURT
HYPOTHEKENBANK IN ESSEN AG, ESSEN
DEUTSCHE GENOSSENSCHAFTS-HYPOTHEKENBANK AG, HAMBURG
BERLIN-HANNOVERSCHE HYPOTHEKEN-BANK AG, BERLIN AND HANNOVER
ALLGEMEINE HYPOTHEKENBANK AG, FRANKFURT
WESTHYP, DORTMUND
BAYERISCHE HANDELSBANK AG, MUNCHEN
WÜRTTEMBERGER HYPO, STUTTGART
RHEINBODEN HYPOTHEKENBANK AG, KÖLN
DEUTSCHE HYPOTHEKENBANK (ACT.-GES.), HANNOVER
SÜDDEUTSCHE BODENCREDITBANK AG, MÜNCHEN
MÜNCHENER HYPOTHEKENBANK EG, MÜNCHEN
NÜRNBERGER HYPOTHEKENBANK, NÜRNBERG
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BANKING INVESTMENT GROUP CONSIDERS RELOCATION IN EFFORT TO INTEGRATE WITH CITIBANK'S CORPORATE OPERATIONS

Salomon in move on Citibank integration

By Norma Cohen in London and Tracy Corrigan in New York

Salomon Smith Barney, the investment banking arm of financial services group Citigroup, is discussing moving all of its London operations to a new building at Canary Wharf in London's Docklands, as part of an effort to integrate the investment bank with the corporate banking operations of Citibank.

Citicorp, the US bank, merged with Travelers, the parent of Salomon Smith Barney, in September.

But the forced departure of Jamie Dimon, president of the newly formed Citigroup and co-head of Salomon Smith Barney, earlier this month highlighted problems in the integration of the two businesses.

Victor Menezes, of Citibank, and Michael Carpenter, a Travelers executive, have been put in charge of the integration.

The possible move was discussed at a meeting on Monday in London with senior European executives of Salomon Smith Barney.

Although no official statement has been made to staff, one of those present is understood to have briefed members of his own team about the discussions.

Yesterday, a spokesman for the company declined to comment, except to say "nothing has been decided yet".

Executives at Citigroup believe that if the integration of Citi's banking business and Salomon's investment banking business is effective, Europe is one of the most attractive opportunities for winning new business.

Salomon's operation in Europe was a money-loser prior to its merger with Smith Barney, but Citigroup executives hope that investment bankers will be able to take advantage of Citi's corporate banking relationships to build its investment banking business.

Citibank, the corporate banking side of Citigroup, is close to completing a new European headquarters building at Canary Wharf.

Options include integrating all staff into a single building, or the construction of a further building on a site adjacent which has been earmarked for development.

Salomon Smith Barney is based at a 195,000 sq ft building, Victoria Gate, at Victoria Station in the west of London. It has occupied the building since 1984, but since the merger between Salomon and Smith Barney last year, space has become cramped. The group also occupies premises at Piccadilly and at Lombard Street in the City of London.

The estimated value of the Victoria Gate site is £90m-£100m ($149m-$160m), assuming rents of £35 to £38 per sq ft.

Only one bid for Rio project

By John Barham in São Paulo

A group of Brazilian and Italian companies yesterday submitted the only bid for a project to construct a controversial 16km-17km extension to the Rio de Janeiro underground system, expected to cost more than $800m.

The contract requires the consortium to build the new line within four years and operate it for a further 21 years before turning it over to the state of Rio de Janeiro. The state is to contribute up to $416m to the cost of the project, leaving the balance to be financed by the private-sector consortium.

The private group comprises three large Brazilian construction companies, Constran, Trans-Sistemas de Transporte and Queiroz Galvão. ATM-Azienda Transporti Municipale, which holds 10 per cent of the consortium and operates the Milan underground system, will run the new Rio line.

However, a state official said that the project was likely to cost more than the consortium's minimum bid of $408m. The consortium has not yet said how it intends to finance the project.

Brazil has raised $37.31bn so far this year from selling state-owned assets in one of the world's largest privatisation programmes.

Flávio de Magalhães, executive secretary of the state privatisation commission, said: "This is an important project. It is the first project of its type in Brazil." He said that although it was disappointing the project attracted only one bid, it indicated that investor confidence was returning to Brazil after the financial crisis which erupted in August.

The state had to postpone an earlier round of bidding when none of the groups was able to find financial guarantors to back their bids.

Retail investors choose bond funds over equity

By John Authers in New York

US retail investors confounded expectations last month – the strongest month for the US stock market in more than a decade – by putting twice as much money into bond funds as into equity mutual funds.

There was also a huge increase in the amounts put into money market funds, which can be used as parking places for investors uncertain about the overall direction of the market. Total flows of new cash into money funds rose from $7.4bn in September to $45.9bn last month.

For the year overall, money funds attracted $210.0bn in new money compared with $89.7bn over the same period last year. This seems to show that the severe volatility in equity markets deterred small investors from making long-term decisions.

Flows of new money into equity funds are lagging far behind last year, with net new investments of $142.8bn during the first 10 months, down from $193.4bn in the equivalent period last year.

This was despite recent market recovery, which means most equity fund investors have seen as strong a return for 1998 as they did in 1997. Sentiment among professional investors has been buoyed in recent weeks by the belief that investors would continue to put money into equity funds, and that this would force share prices to rise further.

Mutual fund investors usually appear to "follow the market", putting in the largest amounts of money when markets are doing well. But the net flow into US equity mutual funds last month was only $2.35bn, significantly down from September's $6.32bn.

Bond funds attracted $4.62bn during the month, barely behind September's cash flow, despite Treasury bond prices falling.

The Washington-based Investment Company Institute, the trade association compiling the figures, said falling short-term interest rates had helped to boost flows to institutional funds.

Within equity funds, it said, investors shunned relatively conservative investments. "Aggressive growth" funds, specialising in small companies with fast growing profits, growth funds, and funds specialising in specific industrial sectors, also saw inflows, while money flowed out of growth and income funds.

AOL to power up e-commerce with $4.2bn buy

By Louise Kehoe and Roger Taylor in San Francisco

America Online aims to "turbo-charge e-commerce" with its acquisition of Netscape Communications, the companies said yesterday as they announced the signing of the $4.2bn all-stock transaction.

Already the world's largest provider of online services and internet access, with 14m subscribers, AOL plans to use Netscape's software, and in particular its products for electronic commerce websites, to offer "end-to-end solutions to bricks and mortar merchants" enabling them to go online, said Steve Case, AOL chairman and chief executive.

The combination of AOL's consumer traffic and Netscape's technology would fulfil the promise of e-commerce and combine two of the best-known brands in cyberspace, he said.

After several weeks of intense negotiations, AOL announced a three-way deal. As well as buying Netscape, AOL agreed a three-year technology and marketing alliance with Sun Microsystems, the leading supplier of computers used to host internet websites.

Under the terms of that agreement, Sun will market Netscape's existing software products and jointly develop new e-commerce software. The companies will also combine to develop software to run on a new generation of mobile internet access devices – cellular telephones, pagers and other pocket-sized products. Sun will pay more than $350m in licensing and other fees to AOL. This will be balanced by AOL's purchase of $500m-worth of products and services from Sun over the next three years.

Mr Case said another important element of the deal was Netscape's Netcenter website. It would complement AOL's existing services, he said. AOL appeals primarily to consumers, while Netcenter had achieved a strong following among those who use the internet at work.

Netscape will operate as a stand-alone subsidiary of AOL. Jim Barksdale, Netscape chief executive, will join the board of AOL, but have no operating responsibilities. Other senior Netscape executives will report to Bob Pittman, AOL chief operating officer.

Mr Barksdale, who had recently said Netscape planned to "go it alone" said the deal was a "compelling alternative". "We are jazzed about the deal. This creates the winning team for e-commerce in the next century."

Jim Barksdale: 'We are jazzed about the deal' STR

Netscape, which distributes its web browser free in response to competition from Microsoft, had refocused on the portal website and e-commerce, said Mr Barksdale. "A year ago, the browser represented 25 per cent of revenues. Now it is zero."

A key witness in the ongoing Microsoft antitrust trial in Washington, Mr Barksdale yesterday downplayed the relevance of the AOL-Netscape combination to the antitrust case.

Mr Case, while not commenting on the antitrust issue, said AOL wished to maintain its relationship with Microsoft. It would continue to offer subscribers Microsoft's browser software to ensure AOL software was included on the Windows opening screen. However, in future AOL would distribute Netscape's browser via its ICQ "chat" website.

Separately, Netscape yesterday reported a strong surge in revenues for its fourth quarter. Revenues were $162m against $152m. Net income of $2.7m was down sharply on $10.2m a year earlier. Excluding non-recurring charges, earnings per share were 4 cents. Analysts had forecast 3 cents.

IP sees deal lead to paper profits

By John Authers in New York

Yesterday's $6.6bn deal between International Paper, the largest US paper company, and Union Camp, another US paper manufacturer, valued UC at $71 a share – a huge premium to its price of 48\frac{11}{16}$ immediately before the deal. By mid-morning, UC's shares had risen to 66\frac{11}{16}$, a 37 per cent rise.

IP predicted the deal would be accretive to earnings within the first year.

John Dillon, IP chief executive, said the recent stock-market resurgence had not been a factor, and the deal had only been discussed for a matter of weeks.

The deal, described by Mr Dillon as a "perfect fit", follows a series of asset sales by IP and allows it to increase its concentration on paper, packaging and forest products. The deal should close next year, either at the end of the first quarter or at the beginning of the second. It will be accounted as pooling of interests, with UC shareholders owning about 25 per cent of the new company.

Under the terms of the deal, there is room for flexibility in the amount of IP stock UC shareholders will receive. If IP's share price is less than $43.70 when the deal closes, the exchange ratio per UC share will be fixed at 1.6247. If it exceeds $48.70, the ratio will be 1.47 times IP's share price.

While IP's share price moves between $43.70 and $48.30, the ratio will change to ensure that UC shareholders receive $71 per share.

UC was advised by Goldman Sachs; IP was advised by Credit Suisse First Boston.

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EMI hit by weak release schedule

By Alice Rawsthorn

EMI, the music group, said poor trading conditions and a weak release schedule had triggered a 10.7 per cent decline in interim pre-tax profits to £68.6m ($115.2m).

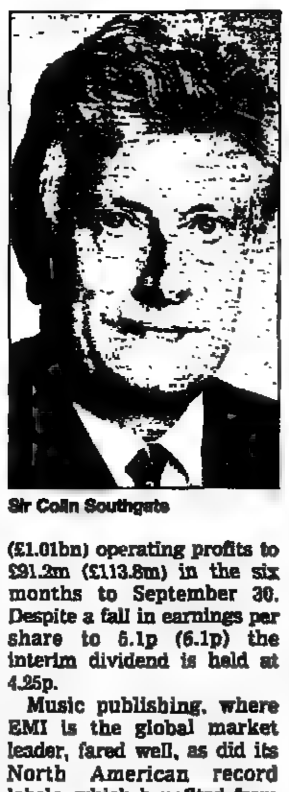
Sir Colin Southgate, chairman and chief executive, warned that margins for the full year would be "down by the same amount as in the first half", adding that he saw no sign of an immediate improvement in the trading climate.

EMI, long mooted as a takeover target, confirmed on Monday that it had held an "informal meeting" with Bertelsmann, the German music and media group, which is understood to be keen to mount a bid, but not at EMI's current share price.

Sir Colin said he was sceptical about the likelihood of a bid. "It is a month since that meeting and we have not had any contact whatsoever since then".

EMI's shares, which have fallen by nearly 40 per cent against the FTSE 100 index since the start of this year, slipped 4½p to 360¼p yesterday.

Turnover fell to £994m ($1.01bn) operating profits to £91.2m ($113.8m) in the six months to September 30. Despite a fall in earnings per share to 5.1p (6.1p) the interim dividend is held at 4.25p.


Sir Colin Southgate

Music publishing, where EMI is the global market leader, fared well, as did its North American record labels, which benefited from the release of best-selling albums by the Beastie Boys, Garth Brooks and Priority Records' rap artists. However, Sir Colin cautioned that the US release schedule in the second half would be weaker than in the first.

Elsewhere, EMI experienced "dull" trading conditions in Europe, and suffered "severe downturns" in its once-buoyant Asian and Latin American markets.

It has cut costs in vulnerable markets, notably Japan and Brazil, and is considering the possibility of rationalising further by forming distribution joint ventures. Sir Colin said Asia was a prime area for pooling distribution, but EMI would consider joint ventures "anywhere that it makes sense."

Sir Colin claimed the economic outlook made it "too uncertain" to predict when the global music market would return to growth. "We hope to see sales increases of 4 per cent or 5 per cent over the next two years, but we don't expect to return to the heady days of double digit growth," he said.

EMI has appointed headhunters to find a new group chief executive who will eventually succeed Sir Colin, who plans to become non-executive chairman after the new recruit arrives.

US investor cavalry seeks out 'cheap' UK engineers

Value funds have taken significant stakes in British companies but will want results, writes **Andrew Edgecliffe-Johnson**

The effective takeover of BTR by Siebe, announced on Monday, may prove to be the first vindication of a creeping trend in the engineering industry. In the past year, US value investors have begun to take significant stakes in many large and small engineering companies across the Atlantic, but the plunge in London share prices has left most nursing losses. The jump in BTR and Siebe's shares after the deal's announcement has helped the US funds to buck that trend.

At BTR, the proportion of shares in US ownership has doubled to nearly 30 per cent in the past 12 months. Even as its shares continued their dramatic underperformance, US value funds were increasing their holdings. About 25 per cent of Siebe is in US hands.

Franklin Resources, part of Templeton, has built up a 9 per cent stake in BTR – worth almost £400m after the rally in its shares this week. US fund managers from Franklin, Fidelity, Brandes Investment Partners and Sprucegrove Investment Management all attended a rare two-day tour of BTR's operations in North Carolina last week. Among the UK shareholders, by contrast, only Philips & Drew – another value investor – was represented.

Paul Compton, capital goods analyst at Merrill Lynch, returned to London two weeks ago from a marketing trip to see US investors. He found no shortage of interest in UK engineering stocks. "Normally they tell me 'don't waste our time', but this time they were all over me like a cheap suit."

The interest is not confined to FTSE 100 engineers such as BTR, Siebe or British Steel, in which Franklin has a 16 per cent holding and Brandes has 8 per cent. Fidelity owns almost 16 per cent of Babcock, where the Capital Group has another 11 per cent; Franklin and Capital Group own 22 per cent of Vickers between them, and Franklin owns almost 20 per cent of Laird.

Franklin, Capital Group and Fidelity – the three US investors which crop up most frequently on UK engineers' share registers – own at least 13 per cent of Alvis and McKechnie between them, and 11 per cent of Cookson.

According to Mr Compton, their appetite is based on the conviction that the pound will weaken. "One US hedge fund manager told me 'they are all cheap, and sterling is going down. It's easy'," he said.

It is not difficult to see why UK engineers look inexpensive when viewed from New York, where engineering stocks have sharply outperformed their UK peers since the summer.

The average p/e ratio for UK engineers has fallen from above 17 to below 12 since May, while US engineers still trade at almost 18 times prospective earnings. The average UK engineer's dividend yield has risen to 4.3 per cent, meanwhile, leaving US engineering yields trailing at about 1.5 per cent.

UK engineering directors seem to share such bullishness: the ratio of directors buying shares in their own companies to those selling has reached 28-1 in recent weeks – the highest recorded in the industry.

Boards are investing their companies' money in similar fashion, with share buybacks from BTR and Lucas-Varity through to more conservative groups such as Spirax-Sarco, Weir and Glynwed.

So why are UK fund managers not piling into the sector?

The main reason is that most feel they hold more than enough engineering stock already. Another factor may be a subtler question of business confidence. While UK fund managers are confronted daily by gloomy confidence surveys and news of industrial job losses, the tone in the US has been more upbeat. Many US fund managers are also aware that the average UK engineer makes three-quarters of its sales outside the UK.

However, the US stake-building so far has not stopped the slide in engineering share prices. John Dean, who follows smaller engineering companies for Warburg Dillon Read, said the real interest from US buyers came in the first half of this year. Since then, many engineers have fallen 40 per cent from their peak and the US investors have mostly lost money.

Value investors have a reputation for more active involvement in the boardroom than many of those they are replacing on the UK share registers. Engineering directors cannot expect their new investors to take long-term underperformance lightly.

There is one other consideration for engineering managements. Such shareholders are unlikely to stick with their holdings for as long as the average UK pension fund or insurer. Any board on the receiving end of an unwelcome bid, therefore, may not count on much loyalty from its new investors. In BTR's case, it is easy to imagine that investors will decide that BTR Siebe is a very different animal from the "value plays" in which they usually invest.

Buying interest from the US may have provided short-term relief, therefore, but the cost may be that shareholder bases have become less stable.

The US investors moving across the Atlantic may look like the cavalry riding to the rescue of a bombed-out sector, but they could prove instead to be a vanguard that makes hostile takeovers easier for any transatlantic corporate aggressor.

Attempt to resolve M&S succession

By Peggy Hollinger

Keith Oates, deputy chairman of Marks and Spencer, will today make a last ditch attempt to lead Britain's biggest clothing retailer, which has been riven by boardroom dissent in recent weeks over the successor to Sir Richard Greenbury, chairman.

Directors are hoping to resolve the issue at a board meeting at the company's Baker Street headquarters. Mr Oates' main rival for the position is Peter Salsbury, joint managing director and Sir Richard's favoured candidate.

Sir Richard had been expected to split his roles as chairman and chief executive next May. The chief executive was also to have been named at the same time. However, it is now likely that an announcement will be today.

The board is expected to consider a range of proposals put forward by the non-executive directors.

CONTRACTS & TENDERS

ETBA Finance

ECONOMIC & FINANCIAL SERVICES S.A.

INVITATION FOR EXPRESSIONS OF INTEREST IN PURCHASING THE ASSETS OF "THE COMMERCIAL & INDUSTRIAL COMPANY FOR THE SALE & RECYCLING OF METALS S.A." known as "REMET S.A."

ETBA FINANCE ECONOMIC AND FINANCIAL S.A., established in Athens (1 Eratosthenous St.), as special liquidator of the above company, by Decision No. 4659/1998 of the Athens Court of Appeal, by which, "THE COMMERCIAL & INDUSTRIAL COMPANY FOR THE SALE & RECYCLING OF METALS S.A." - "REMET S.A." has been placed under special liquidation within the framework of article 46a of Law 1892/1990, as supplemented by article 14 of Law 2000/1991 as currently in force

INVITES

interested parties to express their interest in purchasing the assets of "THE COMMERCIAL & INDUSTRIAL COMPANY FOR THE SALE & RECYCLING OF METALS S.A." ("REMET S.A.) by submitting within twenty (20) days from today, a written, non-binding expression of interest.

Summary data on the company under liquidation

"THE COMMERCIAL & INDUSTRIAL COMPANY FOR THE SALE & RECYCLING OF METALS S.A." ("REMET S.A.) is established in the municipality of Athens at 12 Anexartisias Street. The Company has built a factory in the industrial zone of Patras for trading, importing, exporting, producing, processing and recycling ferrous and non-ferrous metals, wire cables of all types, scrap metal, as well as high-technology products and machinery of all types

The unit is installed on a self-owned plot totalling 5,029 m2 in area.

The building in which production takes place is 671 m2 in area and also has a shed 342.57 m2 in area plus a small electric power company building 18 m2 in area.

Data concerning the tender

1. Prospective buyers, after signing a confidentiality agreement, may receive the Offering Memorandum from the offices of the liquidating company, within the legal time limits. They will also have access to any other information they may request and be able to visit the premises of the company under liquidation.
2. The Offering Memorandum will contain a detailed description of the total assets for sale of the company in liquidation and useful information for the prospective buyer
3. The procedure for conducting the tender will be published within the legal time limits and in the same newspapers in which the present invitation has appeared

For further information, please apply to
ETBA FINANCE S.A., 1 Eratosthenous Street, 4th Floor, Athens 116 35, Greece
Tel. (301) 7260210, 7260278, 7260506 and fax. (301) 7260884.
Mr Christos Papadimitriadis or Mrs Sophia Anagnostopoulou.

CONTRACTS & TENDERS

HELLENIC REPUBLIC

HELLENIC TOURISM ORGANISATION (HTO)

Request for Proposals (R.F.P.)

The Hellenic Tourism Organisation (HTO) hereby invites interested parties to take part in an international public tender, with sealed bids (without counter-bids), for the tourist development and longterm use and operation of:

1. an area of 785 "stremmata" (1 stremma = 1000 m2) in the district of Platystomo
2. an area of 806 "stremmata" in the district of Ypati
3. an area of 760 and another of 309 "stremmata" in the district of Thermopylae and
4. an area 689 "stremmata" in the district of Kamena Vourla

all situated in Central Greece and all containing thermal springs. The development of the areas should be based on the use of these springs. The bidding will be conducted in the offices of the Directorate of Exploitation of the HTO at 7 Voulis Street, Athens, 6th floor Conference Room on Monday, 5th April 1999 from 10:00 hrs to 12:00 noon before a Bidding Committee set up for this purpose.

Interested parties can obtain all the necessary information from the day following publication of this Request for Proposals from the Directorate of Exploitation of the HTO at 7 Voulis Street, Athens, 6th floor, Room 608 on all working days from 11:00 to 14:00 hrs.

The Secretary General

M. Kiriakidis

Our current results.

British Brain Power

THE NATIONAL GRID GROUP plc - INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 1998

- Total operating profit was up 10% to £284.3 million.
- Transmission controllable costs were down 4% in real terms, following a 14% reduction in real terms last year.
- Energis' earnings before interest, taxation, depreciation and amortisation were up from £2.1 million to £19.4 million. Its operating loss halved to £10.5 million of which our share was £7.8 million compared with £21.1 million for the first half last year.
- Earnings per share were up 17% to 11.0p.
- The increase in interim dividend per share of 8.7% (5.0% in real terms) to 5.25p is at the top end of our target range for growth in dividend per share of 4% to 5% in real terms.

This was a sound performance against a background of real reductions in price-capped revenues and shows the benefits of our continued cost management programme. We are well on track to achieve a reduction in transmission controllable costs of an average of at least six per cent per year in real terms over this four year regulatory period. Our UK transmission business continues to provide a vital service efficiently, reliably and safely, and it forms a bedrock for the Group.

We maintain our intention of growing additional shareholder value by building over 20 per cent of Group earnings from investments outside our core UK transmission business within a five year period. In so doing, we shall exploit our proven skills in building and operating complex networks and managing sophisticated software systems in real time.

We are delighted with Energis' continuing progress. Our shareholders have benefited from the successful development of this business and we are confident that it will deliver substantial further value.

David Jefferies, Chairman.

GROUP PROFIT AND LOSS ACCOUNT
for the six months ended 30 September 1998

	Six months ended 30 September 1998 £m	Six months ended 30 September 1997 (as restated) £m	Year ended 31 March 1998 (as restated) £m
Group turnover			
- Continuing operations	748.6	718.1	1,519.3
- Discontinued operations	-	62.0	90.1
	748.6	780.1	1,609.4
Operating costs	(463.1)	(523.8)	(1,069.4)
Operating profit/(loss)			
- Continuing operations	285.5	277.4	568.4
- Discontinued operations	-	(21.1)	(28.4)
Operating profit of Group undertakings	285.5	256.3	540.0
Share of operating profit in joint ventures	6.6	2.6	5.4
Share of operating loss in associate	(7.8)	-	(4.1)
Total operating profit	284.3	258.9	541.3
Exceptional profit relating to Energis	-	-	107.1
Net interest	(63.4)	(33.7)	(75.8)
Profit on ordinary activities before taxation	220.9	225.2	572.6
Taxation	(59.6)	(64.5)	(133.5)
Profit on ordinary activities after taxation	161.3	160.7	439.1
Dividends			
- Ordinary	(77.0)	(83.0)	(189.2)
- Special	-	-	(768.6)
	(77.0)	(83.0)	(957.8)
Retained profit/(loss)	84.3	77.7	(518.7)
Earnings per ordinary share			
- Basic - on profit for the period	11.0p	9.4p	26.0p
- Excluding the exceptional profit relating to Energis	11.0p	9.4p	19.7p
Dividends per ordinary share (net)			
- Ordinary	5.25p	4.83p	12.07p
- Special	-	-	44.70p

Notes:

£15.2 million of provisions were released to the profit and loss account following the adoption of a new accounting standard FRS 12 'Provisions, Contingent Liabilities and Contingent Assets'. FRS 12 has resulted in the one-off release of provisions totalling £56.0 million, of which £40.8 million is treated as a prior period adjustment.

The increase in net interest was primarily the result of financing the special dividend of £768.6 million paid to shareholders in February 1998. Interest cover for the first half was 4.5 times.

Operating profit from our joint ventures in Argentina and Zambia was £4.4 million and £2.2 million respectively.

At the close of trading on 23 November 1998, the market value of our remaining 74.3% economic interest in Energis was £2.3 billion, some 3.7 times the value at flotation in December 1997.

Despite the reduction in price-capped revenues and the increase in financing charges, profit before tax was only slightly down by £4.3 million to £220.9 million. Profit after tax was marginally higher at £161.3 million compared with £160.7 million for the same period last year.

Net debt at 30 September 1998 was £1,507.4 million, compared with £1,465.3 million at 31 March 1998.

Our programme to ensure that the Millennium date change brings no material disruption to our operations is well advanced.

The interim dividend will be paid on 15 February 1999 to shareholders on the register at 4 December 1998.

The financial information contained in this announcement has, with the exception of the change in accounting policy resulting from the adoption of FRS 12, been prepared on the basis of the accounting policies set out in the Annual Report and Accounts for the year ended 31 March 1998 and does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The financial information in respect of the year ended 31 March 1998 has been derived from the statutory accounts for the year ended 31 March 1998, which have been delivered to the Registrar of Companies. The auditors' report on these statutory accounts was unqualified and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985. The financial information in respect of the six months ended 30 September 1998 is unaudited but has been reviewed by the auditors.

For a full copy of National Grid's interim results statement, please write to us at the Shareholder Enquiry Unit, National Grid House, Kirby Corner Road, Coventry CV4 8JY, or phone 01203 423940.

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COMPANIES & FINANCE: UK

Airtours launches £250m bond

By Elizabeth Robinson

Airtours, the UK's second largest tour operator, yesterday reported full-year results well ahead of expectations, but shares in the company fell more than 5 per cent after it announced a £250m ($420m) convertible bond to fund future growth.

The fundraising, which contains a £50m greenshoe, or overallotment option, will be used "to take advantage of opportunities as they arise", according to David Crossland, chairman.

He said: "I see a superb opportunity to be one of the top three major players in Europe." Analysts expected Airtours to use its increased cash flow to make acquisitions, perhaps within the next quarter.

Mr Crossland said that the European travel market was in the early stages of consolidation and that Airtours would continue to make small strategic acquisitions, following its purchase earlier this year of Frosch Touristik of Germany.

The group's European operations were the only weak spot in an otherwise strong set of results. Pre-tax profits for the year to September 30 rose 17 per cent to £140.3m on turnover up 32 per cent at £3.05bn. However, profits in continental Europe dropped from £39.2m to £17.5m mainly because of overcapacity in the company's Scandinavian operations.

Mr Crossland said that conditions in Scandinavia, where Airtours has 50 per cent of the market, had improved in the fourth quarter but not enough to offset losses earlier in the year.

Mr Crossland also signalled that he was seeking more acquisitions in the US. He said that market lacked a national brand and was fragmented between big regional operators. He said that £25m was the typical value of an operation in the US. Losses from the US were reduced to £1.1m (£6.6m).

UK tour operating and retail profits rose nearly 30 per cent to £104m, helped by acquisiitons.

The shares fell 25p to 410p.

Further difficulties for F1 issue

By Jonathan Ford

Warburg Dillon Read confirmed yesterday it had declined an invitation from Morgan Stanley to take part in the syndicate to sell a $2bn bond issue for Bernie Ecclestone's Formula One motor racing company.

Warburg said it had reached its decision after "full consideration", but declined to elaborate. Its decision adds to the difficulties facing the issue, which has been dogged by reports that investors are wary of buying the bonds because of concerns over the outcome of an inquiry being conducted by the competition authorities in Brussels.

Morgan Stanley has been marketing the issue extensively in recent weeks, targeting investors in Europe and Asia. It expressed surprise at Warburg's move, saying it had not asked any banks to make a commitment, and would only seek to add banks to the syndicate who it felt would add to the selling effort.

Warburg was one of three investment banks that confirmed they had received invitations to join the syndicate. Merrill Lynch, one of the others, is also understood to have declined to participate in the issue.

Warburg's concerns are understood to have centred on the risk involved in buying the bonds before the outcome of the inquiry.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Airtours	Yr to Sept 30	3,055	(2,309)	140.3	(120.3)	24.08†	(21.27*)	8	Apr 6	5.333*	7.5	6.667*
Anglian Group	6 mths to Sept 26	121.9	(117.4)	14	(11.4)	10.8	(8.7)	4.2	Feb 15	4	-	10
Anglo Irish Bank ♣	Yr to Sept 30	-	(-)	45.1	(30.3)	11.62	(8.6)	3	Jan 21	2.55	4.65	4.2
Athlone Extrusions♣	Yr to Sept 30★	29.6	(24.3)	3.48♠	(3.6)	6.62	(7.33)	1.57	Mar 11	1.42	2.36	2.14
Caffyns	6 mths to Sept 30	80	(87.5)	0.859	(1.27)	19.7	(31)	5.5	Jan 8	5.5	-	14
Chloride	6 mths to Sept 30★	58.2	(57.8)	5.89♥	(4.33♥)	2♦	(1.38)	0.6☆	Jan 29	0.28	-	1
Cosalt	Yr to Aug 30	101	(94)	5.62	(4.61)	31.17	(25.1)	8.75	Jan 20	7.15	13.25	11.25
Eidos	*6 mths to Sept 30*	*47.6*	*(21.8)*	*18.9L*	*(18.3L)*	*80.63L†*	*(70.8L)*	-	-	-	-	-
EMI	6 mths to Sept 30★	994	(1,399)	41.7♥	(24.5♠)	4♦	(0.1)	4.25	Apr 9	4.25	-	16
European Telecom	6 mths to Sept 30	111	(81.5)	0.643	(2.4)	1.12†	(5.22)	0.9	Jan 5	0.9	-	3
Jarvis Hotels	28 wks to Oct 10	77.8	(73.1)	19.4	(18.7♥)	11.9	(10.4)	1.6	Jan 29	1.5	-	4.5
McLeod Russel	Yr to Sept 30	114.1	(117.1)	11.3♥	(11.1)	15.39	(13.76)	4	Apr 6	4	7.1	7
Minorplanet ϕ	Yr to Aug 31■	3.37	(0.28)	1.6L♠	(2.18L)	4.22L	(6.78L)	-	-	-	-	-
Mountview Estates	6 mths to Sept 30	13.9	(13.2)	6.14	(5.51)	92.4	(82.9)	12	Mar 29	12	-	48
National Grid	6 mths to Sept 30★	748.6	(780.1)	220.9	(225.2)	11♦	(9.4)	5.25	Feb 15	4.83	-	12.07#
Oglesby & Butler♣	6 mths to Sept 30	2.29	(2.03)	0.321	(0.256)	2.78	(2.24)	1	Dec 10	1	-	2
Powell Duffryn	6 mths to Sept 30	209.4	(356.7)	20.5	(21.1)	20.8	(17.2)	8	Jan 5	8	-	25
Real Time Control	6 mths to Sept 30	6.58	(7.18)	1.80	(1.48)	18.5	(14.5)	-	-	-	-	7.5
Severn Trent	6 mths to Sept 30	670.4	(622.8)	176.5	(191.3)	45♦	(41.2‡)	12.47	Apr 6	11.55	-	41.12
Skus Food	6 mths to Sept 30	20.5	(55.9)	1.1	(1.04♠)	2.2	(2.1)	0.25	Apr 6	nil	-	nil
Sterling Inds	6 mths to Sept 30	34.7	(36.2)	3.91♥	(7.12♥)	8.94	(17.59)	3.5	Feb10	3.5	-	11
Trifast	6 mths to Sept 30	43.7	(37.5)	4.62	(4.04)	18.48†	(16.4)	4.17	Jan 14	3.75	-	11.25
Vibroplant	6 mths to Sept 30	27	(23.9)	2.04	(0.621)	3.78	(1.23)	1.4	Jan 11	1.4	-	4.05
Vocalis	6 mths to Sept 30	1.34	(1.01)	1.05L	(1.49L)	3.22L†	(4.64L)	-	-	-	-	-
Wynnstay Props ϕ	6 mths to Sept 29	0.686	(0.776)	0.13♠	(0.28♥)	3	(7.7)	1.7	Dec 14	1.65	-	5.25

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
[illegible]	6 mths to Sept 30	180.8	(125.1)	8.96	(8.34)	6.1	(5.8)	3	Dec 21	3	-	6.5
Elderstreet VCT	10 mths to June 30	94.4	(-)	0.125	(-)	1.18	(-)	0.8	Dec 7	-	-	-
F&C Special Utils	Yr to Sept 30	122.4	(115.48)	2.66	(2.69)	5.36	(5.37)	3.89	Jan 4	3.81	5.42	5.16
Fulcrum	6 mths to Oct 31	52.86	(52.77)	0.532	(0.678)	4.74	(5.14)	1.4●	Dec 31	1.4	-	10.75#
M&G Income	9 mths to Oct 31	91.4	(93.21)	12.5	(12.4)	6.02	(5)	1.2✠	Feb 1	1.15	-	6
M&G Recovery	6 mths to Sept 30	71.07	(92.04)	4.36	(4.16)	3.22	(3.07)	1	Dec 18	1.5	-	5.93
Monks	6 mths to Oct 31	879	(927.5‡‡)	4.99	(4.64)	6.43	(5.85)	3.5	Feb 1	3.5	-	8.7

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. *Adjusted for scrip issue. ♣Irish currency. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ★Comparatives restated. ☆Foreign income dividend. ♦On reduced capital. #Excludes special. ‡After windfall tax. ϕAim stock. ‡‡At April 30. ■Comparatives for 15 months to August 31 1997. ●Second interim; makes 2.8p to date. ✠Third interim; makes 3.55p to date.

COMMENT

Airtours

Another sign of reviving corporate confidence is the first large UK convertible bond issue since the Russian crisis. Airtours' decision to raise capital via bonds convertible into shares at an ambitious 20-25 per cent premium to the market price would have been a tall order in August or September. But times have moved on. From their September low, Airtours' shares have soared 53 per cent. Yesterday's strong results – earnings were up 17 per cent – have also confirmed Airtours as the best run European tour operator.

Consequently, few begrudge it the £250m it needs to participate in the rapidly consolidating European market. Tapping shareholders in a series of small rights issues for £20m-£30m deals would be a cumbersome process. And since Airtours is virtually ungeared, assuming a bigger debt burden through this convertible would be a useful management discipline and help lower the company's cost of capital. Furthermore, with a proposed coupon of 5¼-5¾ per cent, much lower than its normal borrowing costs of over 6 per cent, it is also a cheaper way of gaining access to the capital markets.

Worries about the relative lack of shareholders' funds – only £166m against a market capitalisation of nearly £2bn – seem overdone. Finding value-creating acquisitions that boost the share price and give bond-holders the incentive to convert should be the main concern. On past performance, there is every reason to expect Airtours to deliver.

EMI

Yesterday's results could be EMI's last as an independent company. A founding member of FT-30 in 1935, the music group now grimly awaits the executioner's axe. This is not aninevitable fate as EMI still looks expensive to Bertelsmann, its most likely buyer. But to judge from its bleak outlook, EMI will have trouble trading its way back to full health in the near future. True, costs are well under control, which is one of EMI's few redeeming features, and the US market is refuting those who claim it has gone ex-growth. Otherwise, it is hard to be cheerful. No recovery in margins is predicted for the second half, as Latin American and Asian markets remain subdued. And a humdrum release schedule for 1999-2000 offers little comfort. No wonder headhunters are having such a tough job finding a new chief executive.

Pearson may sell reference titles

By John Gapper

Pearson, the media company that owns the Financial Times, may sell a number of the specialist publishing operations it has acquired as part of a $4.6bn deal completed on Monday with Viacom, the US media company.

Pearson had intended to sell the business and professional, and reference publishing divisions of Simon & Schuster to Hicks, Muse, Tate & Furst, the US private equity firm, for $960m. But it has now agreed to take on these titles in addition to Simon & Schuster's education publishing operations.

Pearson is seen as more likely to consider bids for the remaining operations, including reference and professional titles.

Correction

Because of a typographical error, it was stated yesterday that analysts estimated Pearson's net year-end debt would be £3.5bn following the acquisition. The correct figure is £2.5bn.

صكرا من الاجل

EURO PRICES

EQUITIES

Profit-takers undo Monday gains

EUROPEAN OVERVIEW

By Philip Coggan, Markets Editor

European bourses succumbed to profit-taking yesterday after the takeover fever that propelled share prices higher on Monday.

Apart from a brief flurry at the start of trading, the all-time high achieved by Wall Street late on Monday failed to give European investors inspiration. The *FTSE Eurotop 100* index fell 29.6 or 1.1 per cent to 2,670.56 while the broader Eurotop 300 dropped 12.64 to 1,149.43.

The FTSE Ebloc 100 index, which comprises stocks in countries planning to join the single currency in January, fell 10.59 to 953.53.

Financial stocks, which enjoyed a good run on Monday on the back of the Deutsche/Bankers Trust talks, were an obvious target for profit-taking. The retail banking sector dipped 1.1 per cent with Deutsche off Ecu 2.6 at Ecu 53.11 and Dresdner down Ecu 1.7 at Ecu 34.53.

But the worst sector of the day was again construction, which fell 3.8 per cent with the French group Bouygues slipping a further Ecu 5.3 to Ecu 163.52.

The best sector of the day was leisure, up 2.4 per cent, with Accor leading the charge, gaining Ecu 9.2 to Ecu 189.11.

The tobacco sector also outperformed the rest of the market, thanks to news of cigarette price rises in the US. BAT rose Ecu 0.2 to Ecu 7.83 and Gallaher was Ecu 0.2 ahead at Ecu 6.25.

There were no further signs of the takeover and acquisition wave that has helped European bourses to motor ahead in the past few weeks. Further deals are seen as highly likely as the continent becomes more integrated as part of the monetary union process.

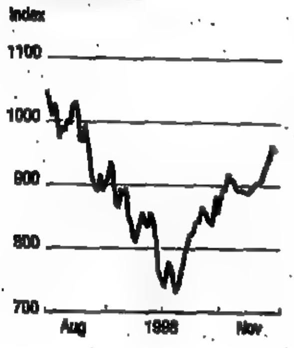
"This year should be a record one for the volume of merger and acquisition announcements involving European companies," says Ian Scott, European strategist at Lehman Brothers.

But he adds that, while there is a close correspondence between the volume of m&a activity and the cycle of corporate profitability, "it is hard to find an easy link between m&a and stock market returns.

"For example, 1988 was a vintage year for stocks but m&a was subdued; conversely, 1990 was a bad year for stocks but a relatively good one for m&a".

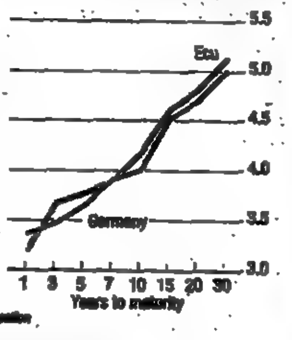
FTSE Ebloc 100

Index



Bond yield curve

Per cent (November 24 1998)



Source: FTSE International, Interactive Data/FT Information

■ THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jan		96.550	+0			0	0
Mar	96.880	[illegible]	+0.015	96.880	96.880	2	3992
Jun		96.730	+0.015			0	2305
Sep		96.735	+0.020			0	1284

■ THREE MONTH EURO OPTIONS (LIFFE) Ecu1m points of 100%

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Dec	PUTS Jan	PUTS Feb	PUTS Mar
96500	0.025	0.265	0.275	0.285	0.145	0.085	0.095	0.105
96625	0.000				0.250			

Est. vol. total. Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 0

■ FTSE EUROTOP 100 INDEX FUTURES (LIFFE) Ecu20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	2710.0	2690.0	-27.0	2710.0	2690.0	160	7179
Mar		2698.5	-27.0			0	1080

■ EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Ecu10 per index point

	2600 C	2600 P	2625 C	2625 P	2650 C	2650 P	2675 C	2675 P	2700 C	2700 P	2725 C	2725 P	2750 C	2750 P	2800 C	2800 P
Dec	216	27	185	31	175	36	137	48	104	65	76	87	52	114	36	146
Jan	255	60	219	73	183	86	161	108	140	130	97	152	285	92	232	295

Ex vol total 1 Prev day's open interest total 8,818 Premiums shown are based on settlement prices.

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

November 24 National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total rate (Ecu)
FTSE Eurotop 300	1149.43	-1.09	-12.64	2.39	30.02	1189.24
FTSE Eurotop 100	2670.56	-1.10	-29.60	2.40	38.65	955.74
FTSE Ebloc 100	953.53	-1.10	-10.59	2.21	14.85	987.59
FTSE EuroMid	1117.91	+0.20	+2.24	2.94	8.31	1158.45
FTSE EuroMid Ebloc	1163.07	-0.25	-2.97	2.48	0.82	1187.16
FTSE EuroMid Ex UK	1180.74	+0.08	+0.94	2.58	8.02	1181.84
FTSE Eurotop 300 Regions						
Eurobloc	1191.66	-1.09	-13.18	2.11	21.48	1216.97
UK	1087.22	-0.66	-7.37	2.85	40.71	1159.23
Europe Ex-Eurobloc	1117.51	-1.08	-12.21	2.70	38.46	1180.12
Europe Ex-UK	1185.92	-1.30	-15.63	2.17	19.69	1287.93
FTSE Eurotop Industry Sectors						
RESOURCES	875.98	-1.19	-10.51	3.26	29.22	915.98
Extractive Industries	770.94	+0.94	+7.17	4.52	14.54	792.22
Oil, Integrated	847.13	-1.28	-10.95	3.21	21.73	867.64
GENERAL INDUSTRIES	1039.41	-0.90	-9.49	2.85	21.29	1081.37
Construction	831.83	-3.33	-28.63	3.34	11.06	841.59
Building Matls & Merchs	902.47	+1.17	+10.43	2.46	8.98	910.27
Chemicals	865.00	-0.54	-4.74	2.89	17.45	880.27
Diversified Industrials	925.85	-0.69	-6.40	2.56	22.61	947.03
Electronic & Elect Equip	922.23	-0.85	-7.91	1.88	5.41	927.26
Engineering	844.13	-1.05	-8.94	3.95	12.32	855.65
Paper, Pckg & Printing	812.86	-2.08	-17.24	2.87	1.21	813.87
CONSUMER GOODS	1182.87	-1.05	-12.54	1.59	30.08	1250.79
Automobiles	874.33	-1.58	-13.92	2.60	10.25	882.44
Alcoholic Beverages	964.20	-1.97	-19.18	2.81	295.79	1421.49
Food Producers	1004.48	-1.42	-14.50	1.92	11.84	1015.26
Household Goods & Texts	1013.84	-0.37	-3.80	1.86	7.88	1021.24
Healthcare	878.20	-1.43	-12.75	1.34	13.81	891.44
Pharmaceuticals	1033.55	-0.96	-9.91	1.25	5.27	1039.16
Tobacco	1285.55	+1.16	+14.76	3.95	15.88	1308.26
SERVICES	1157.34	-1.37	-16.07	2.05	22.93	1189.55
Distribution	763.29	-0.60	-4.61	2.84	11.37	771.86
Leisure & Hotels	729.22	+2.44	+17.40	3.42	12.27	738.76
Media	989.49	-1.76	-17.77	2.24	10.88	1000.88
Retailers, Food	1036.24	-1.54	-16.24	1.98	14.17	1051.28
Retailers, General	988.65	-0.68	-6.65	3.25	29.46	998.63
Telecommunications	1096.97	-1.41	-15.75	1.78	13.52	1112.84
Networks, Rebl & Retls	765.95	-1.71	-13.32	3.52	16.00	779.50
Support Services	932.41	-0.94	-8.82	1.58	9.87	942.30
Transport	984.88	-2.70	-26.80	2.58	18.24	982.67
Information Technology	881.96	-2.05	-18.59	0.41	2.33	884.08
UTILITIES	1453.28	-0.99	-14.60	3.06	57.04	1546.64
Electricity	1094.98	-1.13	-12.53	3.25	27.84	1125.87
Gas Distribution	1211.87	+0.16	+1.95	1.54	93.32	1324.34
Water	1052.10	-2.42	-26.08	4.87	38.72	1092.29
FINANCIALS	1239.16	-1.02	-12.81	2.64	27.52	1272.46
Banks, Retail	869.39	-1.14	-9.94	3.40	13.20	871.10
Insurance	963.19	-0.93	-8.09	1.44	11.79	974.81
Life Insurance	1113.51	-1.23	-13.83	1.75	12.98	1127.97
Other Financial	864.48	+1.24	+10.56	2.94	15.95	878.92
Investment Companies	937.32	-0.12	-1.11	1.45	20.65	954.84
Property	698.27	+1.46	+10.05	3.57	16.01	712.12

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OTHER INDICES

	Nov 24	Nov 23	Oct 26	1998 High	1998 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	3223.20	3260.49	3184.31	3670.85	2435.07	3670.82	2435.07
DJ Euro Stx 50	3153.88	3194.17	3133.49	3558.48	2419.23	3558.48	2419.23
MSCI Europe	(u)	1161.18	1136.18	1315.58	906.59	1315.88	810.70

Source: Eolos/part of FT Information. *Subject to revision next day. (u) unavailable.

FTSE EUROTOP 300

CURRENCIES & MONEY

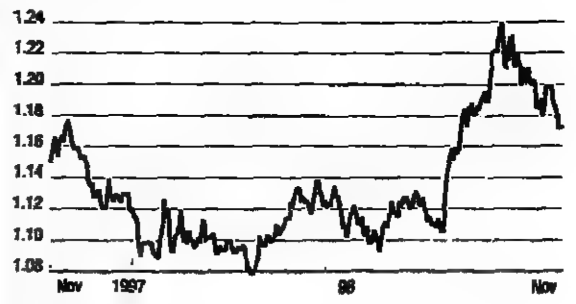
FT SYNTHETIC EURO RATES

Nov 24	Currency code	Closing mid point	Change on day	Change on day%	Change on week	Change week %
Europe						
Austria	ATS	14.049591	-0.0082	+0.00	-0.0024	-0.02
Belgium	BEF	41.191734	-0.0008	+0.00	-0.0129	-0.03
Czech Republic	CZK	35.940256	+0.0251	+0.07	+0.3276	+0.92
Denmark	DKK	7.592354	+0.0007	+0.01	-0.0005	-0.01
Finland	FIM	6.072149	-0.0013	-0.02	-0.0003	+0.00
France	FRF	6.696351	-0.0004	-0.01	-0.0007	-0.01
Germany	DEM	1.996909	+0.0001	+0.00	-0.0004	-0.02
Greece	GRD	335.028444	+0.0685	+0.02	-1.4226	-0.42
Hungary	HUF	258.203986	+0.6744	+0.26	-0.9823	-0.38
Ireland	IEP	0.803215	-0.0005	-0.06	+0.0002	+0.02
Italy	ITL	1977.050914	+0.0194	+0.00	+0.0880	+0.00
Luxembourg	LUF	41.191734	-0.0008	+0.00	-0.0129	-0.03
Netherlands	NLG	2.251604	+0.0003	+0.01	-0.0003	-0.01
Norway	NOK	8.768356	-0.0108	-0.12	-0.1385	-1.56
Poland	PLN	4.083525	-0.0089	-0.22	-0.0546	-1.32
Portugal	PTE	204.956992	+0.0428	+0.02	+0.3155	+0.15
Romania	ROL	11620.949736	+87.6338	+0.75	+29.6412	+0.25
Russia	RUB	21.087918	-0.2347	-1.10	-1.1655	-5.24
Slovakia	SKK	43.145881	+0.0472	+0.11	-0.1190	-0.28
Spain	ESP	168.845808	-0.0034	+0.00	+0.1635	+0.10
Sweden	SEK	9.451958	-0.0420	-0.44	-0.1795	-1.85
Switzerland	CHF	1.648021	+0.0020	+0.12	+0.0041	+0.25
United Kingdom	GBP	0.705157	-0.0038	-0.53	-0.0087	-1.23
ECU	ECU	1.013626	-0.0018	-0.18	-0.0015	-0.15
Americas						
Brazil	BRL	1.402698	+0.0003	+0.02	-0.0216	-1.52
Canada	CAD	1.814147	+0.0016	+0.09	-0.0409	-2.20
Mexico	MXN	11.821208	+0.0408	+0.35	-0.2832	-2.38
United States	USD	1.171581	-0.0080	+0.00	-0.0249	-2.08
Pacific/Middle East/Africa						
Australia	AUD	1.822699	-0.0040	-0.22	-0.0658	-3.49
Hong Kong	HKD	9.072491	+0.0005	+0.01	-0.1914	-2.07
Japan	JPY	141.347630	-0.4011	-0.28	-3.3533	-2.32
Singapore	SGD	1.917478	+0.0002	+0.01	-0.0375	-1.92
South Africa	ZAR	6.851832	-0.0089	-0.13	-0.1618	-2.37

Source: FTSE International Ltd. This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying ERP weights to Euro "in" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends. Currency weightings as follows: DEM 0.3364, FRF 0.2217, ITL 0.1623, NLG 0.0577, BEF 0.0365, ESP 0.0848, IEP 0.0116, PTE 0.0155, ATS 0.0328, FIM 0.0187.

Synthetic Euro against the dollar

$ per Euro



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

Bilateral conversion rates against the D-Mark

Nov 24	Fixed rate	Market rate	Diff fxd v mkt %	Week ago %	Forward rate	Forward int rate	Diff int rate v DEM
Austria	7.03552	7.0357	+0.00	+0.00	7.036	3.57	+0.04
Belgium	20.6255	20.6278	+0.01	+0.02	20.6272	3.5	-0.03
France	3.35386	3.3534	-0.01	-0.02	3.3534	3.53	+0.00
Finland	3.04001	3.0408	+0.03	+0.01	3.041	3.6	+0.07
Ireland	0.402676	0.4023	-0.08	-0.15	0.4024	3.78	+0.25
Italy	990.002	990.0557	+0.01	-0.02	990.2378	3.71	+0.18
Luxembourg	20.6255	20.6278	+0.01	+0.02	20.6272	3.5	-0.03
Netherlands	1.12674	1.1275	+0.07	+0.06	1.1273	3.35	-0.18
Portugal	102.505	102.6371	+0.13	-0.04	102.6521	3.68	+0.15
Spain	85.0722	85.0543	-0.02	-0.14	85.086	3.9	+0.37
Germany	1		+0.00	+0.00		3.53	+0.00

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 3 1998, forward rates are exchange rates to 31/12/98 interpolated from market quotes; forward interest rates are those implied by these forward exchange rates. Diff int rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31/12/98; DEM forward interest rate for 31/12/98 is calculated by interpolation between published BBA market fixings

BONDS

INTEREST RATE SWAPS

Nov 24	D-Mark Bid	D-Mark Ask	Ecu Bid	Ecu Ask	£ Stlg Bid	£ Stlg Ask	US $ Bid	US $ Ask	Yen Bid	Yen Ask
1 year	3.48	3.49	3.51	3.55	0.00	0.00	5.09	5.12	0.36	0.39
2 year	3.49	3.52	3.50	3.54	6.04	6.08	5.16	5.19	0.43	0.46
3 year	3.59	3.62	3.60	3.64	5.97	6.01	5.21	5.24	0.54	0.57
4 year	3.71	3.74	3.72	3.76	5.92	5.96	5.25	5.28	0.65	0.68
5 year	3.87	3.90	3.88	3.92	5.83	5.87	5.29	5.32	0.77	0.80
6 year	4.02	4.05	4.02	4.06	5.76	5.80	5.34	5.37	0.90	0.93
7 year	4.16	4.19	4.16	4.20	5.72	5.76	5.40	5.43	1.02	1.05
8 year	4.29	4.32	4.29	4.33	5.68	5.72	5.45	5.48	1.15	1.18
9 year	4.40	4.43	4.40	4.44	5.65	5.69	5.51	5.54	1.29	1.32
10 year	4.48	4.51	4.48	4.52	5.63	5.67	5.56	5.59	1.42	1.45
12 year	4.63	4.66	4.63	4.67	5.61	5.65	5.66	5.69	1.67	1.71
15 year	4.82	4.85	4.82	4.86	5.60	5.64	5.75	5.78	1.91	1.95
20 year	5.03	5.06	5.03	5.07	5.56	5.62	5.84	5.87	2.11	2.15
25 year	5.15	5.18	5.15	5.19	5.58	5.60	5.82	5.85	2.18	2.23
30 year	5.21	5.24	5.21	5.25	5.52	5.60	5.80	5.83	2.28	2.33

Bid and ask rates as of close of London business. US $ is quoted annual money actual/360 basis against 3 months LIBOR, £ and Yen quoted on a semi-annual actual/365 basis against 6 months LIBOR, D-mark and Ecu quoted on annual bond 30/360 basis against 6 month LIBOR with the exception of the 1 year rate which is quoted against 3 months LIBOR. Source: Intercapital Brokers Ltd.

EUROZONE CORPORATE BONDS

Nov 24	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible Issues								
Belgium (Kingdom of)	03/08	5.750	N/A	111.236	4.26	-0.01	-0.09	+0.07
France (Rep of)	04/08	5.250	AAA	108.760	4.10	+0.01	-0.11	-0.08
Italy (Rep of)	05/08	5.000	AA	105.520	4.28	-0.01	-0.16	+0.09
Portugal (Rep of)	06/08	5.375	AA-	107.400	4.41	+0.01	-0.11	+0.22
Euro Issues								
Abbey Natl Treas Srv	02/03	4.875	AA	103.840	3.87	+0.00	-0.06	+0.09
Gen Electric Cap Crp	10/04	5.500	AAA	108.040	3.93	-0.01	-0.08	+0.11
Oest Kontrollbank	04/08	5.250	AAA	106.090	4.38	+0.03	-0.14	+0.17
Cred Local de France	04/08	5.250	AA+	105.160	4.56	+0.01	-0.13	+0.37
Ecu Issues								
Bayer Hypo & Wech Bk	07/01	5.000	AA-	103.000	3.75	-0.09	-0.06	+0.08
Cred Foncier France	03/04	8.375	A	118.625	4.36	+0.03	-0.10	+0.54
Euro Inv Bank	04/04	3.250	AAA	107.130	3.78	+0.05	-0.24	-0.06
ABN Amro Hldg, NV	04/07	6.375	AA-	111.010	4.75	+0.03	-0.20	+0.67

Source: Interactive Data/FT Information. London closing. Fungible bonds issued in tranches by Emu "in" sovereigns and fungible into one big Euro issue 1/1/99; Euro issues are issued in the new currency; Ecu bonds are issued in Ecu but convert to Euros 1/1/99

GOVERNMENT BOND SPREADS vs ECU

Nov 24	1 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
"INs"						
Austria	-0.13	+0.01	+0.18	+0.01	-0.44	+0.15
Belgium	-0.12	+0.02	+0.10	+0.11	+0.05	+0.09
Finland	-0.19	+0.06	+0.18	+0.14	-0.48	-0.81
France	-0.19	-0.11	-0.11	-0.07	-0.07	-0.18
Germany	-0.16	-0.12	+0.01	-0.17	-0.11	-0.13
Ireland	-0.06	-0.05	+0.06	+0.13	+0.17	+0.53
Italy	+0.00	+0.05	+0.14	+0.16	+0.19	+0.15
Luxembourg	-0.12	+0.02	+0.10	+0.11	+0.05	+0.09
Netherlands	-0.13	-0.05	+0.02	-0.09	+0.04	-0.13
Portugal	-0.05	+0.10	+0.22	+0.18	+0.32	+0.19
Spain	-0.21	+0.01	+0.20	+0.25	+0.10	+0.13
"OUTs"						
Denmark	+0.34	+0.37	+0.38	+0.24	-0.09	+0.53
Greece	+6.36	+4.99	+3.91	+3.28	+2.51	+2.19
Sweden	+0.22	+0.27	+0.35	+0.26	+0.20	-0.12
UK	+1.78	+1.06	+1.00	+0.86	+0.01	-0.50

Source: Interactive Data/FT Information. Table takes common convention constant maturity treasury yield curves for each country and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CREDIT SPREADS vs ECU

Nov 20	S & P rating	Red date	Coupon	Currency code	Spread	Spread wk ago	Spread mth ago
KFW	AAA	01/08	5.000	DEM	+0.15	+0.14	+0.17
France Telecom	AA+	11/08	6.250	FRF	+0.26	+0.24	+0.24
Halifax	AA	07/07	5.625	DEM	+0.45	+0.46	+0.45
Ing Bank NV	AA-	01/08	5.500	NLG	+0.33	+0.30	+0.42
Bayer Hypo W. Bk	AA-	02/02	6.750	ITL	+0.27	+0.26	+0.20
Cred Foncier	A	02/03	7.250	DEM	+0.40	+0.49	+0.42
Thomson-Brandt Ins	A-	03/04	6.375	FRF	+0.51	+0.50	+0.52
Generale des Eaux	N/A	03/04	6.250	FRF	+0.41	+0.40	+0.41
Bank of China	BBB	07/99	7.125	DEM	+1.82	+1.98	+2.43
Natl Bk of Hungary	BBB-	08/01	9.000	ATS	+0.71	+0.90	+1.68
Banco Dev Bank	BB+	11/02	5.625	FRF	+5.86	+6.08	+8.21
Argentina	BB	04/08	8.125	XEU	+5.24	+4.92	+5.52

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Prices for Trading on 25.11.98 / Final Prices for Trading on 23.11.98

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TE use of system price £/MWh
0030	9.38	15.22	15.36	1.36
0100	20.47	14.84	14.97	1.36
0130	18.51	15.22	15.35	1.36
0200	18.51	15.22	15.36	1.36
0230	18.51	15.22	15.36	1.36
0300	18.51	15.22	15.36	1.36
0330	20.61	15.22	15.36	1.36
0400	20.02	15.22	15.35	1.36
0430	20.02	10.20	10.20	0.00
0500	9.38	8.37	8.37	0.00
0530	9.38	9.40	9.40	0.00
0600	9.38	10.20	10.20	0.00
0630	26.60	15.31	15.44	1.36
0700	33.58	15.92	16.05	1.36
0730	69.41	15.31	15.44	1.36
0800	69.41	[illegible]	28.32	1.36
0830	30.05	25.04	25.17	1.36
0900	30.60	28.65	28.99	1.36
0930	33.60	56.30	56.44	1.36
1000	33.60	58.31	58.45	1.36
1030	33.60	43.56	43.70	1.36
1100	33.60	27.50	27.74	1.36
1130	33.60	32.73	32.87	1.36
1200	30.06	32.73	32.87	1.36
1230	30.05	43.56	[illegible]	1.36
1300	30.05	32.72	32.86	1.36
1330	12.01	32.72	32.86	1.36
1400	12.01	32.72	32.85	1.36
1430	12.07	32.72	32.85	1.36
1500	30.05	32.71	32.85	1.36
1530	13.43	32.71	32.85	1.36
1600	36.00	32.72	32.86	1.36
1630	63.94	36.15	36.55	1.36
1700	111.78	64.05	58.35	1.36
1730	122.61	[illegible]	114.80	1.36
1800	106.25	110.32	117.70	1.36
1830	56.94	75.08	79.69	1.36
1900	46.95	57.08	58.02	1.36
1930	35.04	43.01	43.53	1.36
2000	37.04	39.69	39.89	1.36
2030	34.14	58.30	59.44	1.36
2100	33.98	58.28	58.42	1.36
2130	33.28	26.19	26.32	1.36
2200	28.78	20.80	21.03	1.36
2230	20.53	20.80	21.03	1.36
2300	20.59	20.90	21.03	1.36
2330	20.59	10.50	10.50	0.00
2400	20.59	10.80	10.80	0.00

Porsche makes a rare appearance

INTERNATIONAL BONDS

By Khozem Merchant and Edward Luce

Porsche made a rare appearance yesterday with a DM500m issue. It is only the second time the German maker of sports cars has come to the international markets: the last time was in April 1997, when it issued a five-year DM200m. Some 70 per cent of the new seven-year bond was picked up by non-German investors in Europe, exceeding bankers' expectations.

The issue was priced to yield 63 basis points over the seven-year bund, and in the secondary market was trading at the re-offer price. Proceeds will go towards the development of a new sports car model.

The World Bank issued a three-year $1bn bond that attracted strong demand from Asia. Latin American and Asian central banks and regional fund management groups took up 40 per cent of the issue.

Three-year paper is relatively scarce, and the short end of the curve is seen as offering historically attractive spreads of between 30 and 50 basis points.

The bond was priced to yield 30 basis points over US Treasuries and was trading marginally tighter than its re-offer price in the secondary market.

Airtours, the UK tour operator, kept the euro-convertible market ticking over with a £250m offering. The bond, which will have a conversion premium of 20 to 25 per cent on the launch share price (in December), is callable after three years.

Airtours' share price has quadrupled in the last four years and bankers say the strength of the equity markets will continue to provide a good backdrop for convertible issues.

Austria yesterday followed Finland's recent lead with a E750m bond that was auctioned to primary dealers across Europe.

The seven-year paper is fully fungible with two earlier issues; a E1bn bond and a E500m offering, both of which were issued recently. The latest deal was priced at 18 basis points over the French OAT and tightened marginally after launch.

There was also strong demand from Asia for the European Investment Bank's $750m 10-year offering. Asian central banks led the way, followed by Japanese insurance companies, which have been absent in recent months from the dollar market.

The markets are expected to quieten down in the next few days because of the two-day Thanksgiving holiday in the US. "After Thanksgiving there's probably only a handful of working days before the market effectively closes for the year," said one banker.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
BankBoston CLF, 98-1(a)‡	2,176bn		100.00				Lehman Brothers
World Bank	1bn	4.875	99.777R	Dec 2001	0.1875R	+30(5⅞%Nov01)	ABN Amro/CSFB/Nomura
European Investment Bank	750	5.25(a)	99.047R	Jan 2009	0.325R	+46(4¾%Nov08)	Morgan Stanley/Salomon
Banco ABN Amro Brasil	50	10.25(i)	99.90R	Dec 2000	0.60R	+554(4Oct00)	ABN Amro
D-MARKS							
SUV Funding Ltd, Jersey(b)	500	4.50	99.85R	Dec 2005	0.40R	+63(6½%Oct05)	Lehman Brothers
STERLING							
Airtours plc(c)(d)§	250	5¼-5¾	100.00	Jan 2004	undisd	-	Merrill Lynch Intl
Halifax plc	200	5.75	99.719R	Dec 2003	0.275R	+90(6¾%Dec03)	Morgan Stanley DW
YEN							
J-Shop Corp (k)‡‡	40.8bn	(d1)	100.00	Jan 2003	0.35	-	Goldman Sachs Intl
SWISS FRANCS							
Compagnie de Saint-Gobain	250	2.50	100.50	Jan 2004	2.00	-	CSFB
NEW ZEALAND DOLLARS							
National Australia Bank	250	5.50	100.486	Dec 2000	1.125	-	TD Securities
LUXEMBOURG FRANCS							
Argenta Nederland	200	4.30	100.00	Jan 2004	1.75	-	BCEE

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡ Floating-rate note. ‡‡Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Commercial Loan Funding. 6-tranche asset-backed. b) Guarantor: Porsche. c) Fixing by 15/12/98, indicated conversion premium: 20-25%. Shareholder pre-emption rights over £250m. Greenshoe: £50m. Callable after 3 yrs subject to 130% hurdle. d) Secured on shipping loan receivables originated by Nippon Shinpan Co. d1) 1-mth Libor +55bp. i) Short 1st coupon.

Further changes to Russian GKO plan

By Arkady Ostrovsky in London and John Thornhill in Moscow

Foreign banks are nearing agreement with the Russian government on the restructuring of the GKO/OFZ market, but the terms of the deal appear to be changing once again.

Earlier this month, the banks and Russian negotiators agreed that foreign investors would receive rouble-denominated securities for their GKOs. The Russian side had offered investors a 10 per cent up-front cash payment, 20 per cent of the value of the debt in zero-coupon bonds and 70 per cent in four-year to five-year bonds, which would carry a coupon of 30 per cent.

According to the new proposals, however, the coupon on the four-year to five-year bond would fall by 5 percentage points a year until it reached 10 per cent – a suggestion labelled "derisory" by one banker.

The 20 per cent zero-coupon bonds could only be used to pay taxes or to buy newly issued shares in Russian banks – an option unlikely to attract foreign investors.

In a move to bail out Russia's banks, the central bank will provide a total of $200m in December and January to encourage foreign banks to settle their forward contracts with Russian banks.

The measure is designed to prevent foreign banks from filing lawsuits against Russian banks that have defaulted on payments on forward contracts.

Mikhail Zadornov, Russia's finance minister, said the new state securities, representing repackaged GKOs, would be issued in the first 10 days of December.

EQUITIES RULE BOOKS TO BE HARMONISED

Benelux markets form trading link

By Gordon Cramb in Amsterdam

The Dutch, Belgian and Luxembourg stock exchanges will from January open their doors to each others' members, in one of the most extensive cross-border tie-ups to date in European securities markets.

They will today announce an agreement allowing all stocks listed on their boards to be traded by brokers affiliated to any of the bourses.

The ending of the requirement for separate memberships on each exchange is intended to boost the position of local securities firms in the single European capital market being brought about by monetary union.

The initiative follows a decision by the Stockholm and Copenhagen bourses to unite their equity trading later next year. It comes ahead of a meeting in Paris on Friday of exchange authorities from nine European countries to discuss a proposed single trading system for their most actively dealt blue-chip equities.

"A lot of parties have been talking to each other, but we can show that things can be achieved," said George Möller, president of Amsterdam Exchanges (AEX), the operator of the Dutch securities markets.

AEX was the first to express interest in joining the alliance set up in July by the London and Frankfurt stock exchanges.

Mr Möller described the wider co-operation talks as being at a sensitive stage, saying he expected a statement of intent from the Paris meeting that would need to be followed by much more work.

The Benelux deal has been in preparation for more than a year. Telecommunications links are being laid to provide a feed from each bourse through which members can deal on the other two markets. The three say that in time this could lead to the creation of a common clearing house.

The markets are to harmonise their rule books, but for now dealers will be required to abide by the regulations of whichever bourse they use for any transaction. They will also have to qualify under European Union rules for the provision of financial services in another member state.

"A small firm in Holland that has never been active in Belgium or Luxembourg can now be so. We are lowering the entry barriers," said Mr Möller.

An entry fee of E25,000 is being waived for the first six months for existing members, along with the first year of annual exchange membership fees. This means additional costs are limited to those for accessing the respective trading screens.

Apart from tariffs and regulatory requirements, bringing three trading systems together on one network occupied much of the planning period. Mr Möller also favours this approach for any European blue-chip alliance, rather than a standardised trading platform.

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US Treasuries recover lost ground

GOVERNMENT BONDS

By Edward Luce in London and John Labate in New York

European markets gave mixed signals yesterday, with the longer end of the curve coming under pressure but some gains at the shorter end.

In the US, Treasuries recovered some of the ground lost on Monday after the Dow Jones Industrial Average hit an all-time high.

The 10-year German bund ended slightly higher in the cash market but on low volumes. The 10-year bund future regained the ground it had lost in the morning partly due to the decline in German equity prices in the afternoon.

Some economists expected price weakening today owing to new supply, with the Bundesbank issuing another DM15bn in the 4.125 per cent 10-year benchmark.

More broadly, economists noted a lack of direction in the core European government bond markets because of fears about the level of equity valuations in the US and Europe – implying that there was an equity bubble in the making – but also hopes that European interest rates would be cut further, which is traditionally good for bond markets.

"The market is being pulled in two different directions," said one trader. The December future closed 0.16 higher at 113.86 in Frankfurt.

In the UK, the gilt future closed lower, with economists expecting today's trade data release to show the UK global trade deficit rising to £2.1bn in September from £1.2bn in August. The future closed 0.15 down at 115.95 in London.

The UK debt management office will issue £450m of 15-year index-linked gilts today, the first government bond issuance since August.

US Treasuries gained ground as equities sold off and investors saw signs of renewed economic strength in morning releases on gross domestic product and consumer confidence.

In early afternoon trading the benchmark 30-year bond was up $\frac{5}{32}$ to $100\frac{3}{32}$, yielding 5.215 per cent. The 10-year note climbed ⅛ to 99¾, yielding 4.846 per cent, but the two-year note was unchanged at 98[illegible], yielding 4.666 per cent.

"What's driving the market is a combination of technical momentum and stocks coming off their highs, and the economic data did support it," said Richard Gilhooly, international bond strategist at Paribas Capital Markets in New York. Hedge funds were believed to be active buyers in the market.

The US Commerce Department released an upward revision of third-quarter gross domestic product from 3.3 per cent to 3.9 per cent, in line with expectations. The surprise was the downward revision in inventories, showing corporations are cutting back on investing and another good sign for bonds, Mr Gilhooly added.

A separate report showed consumer confidence snapped back in November after four months of decline. Treasury trading will close early today and the market will be closed tomorrow for Thanksgiving.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Nov 24	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	108.0384	4.72	+0.06	+0.11	+0.37	-0.30
	03/08	5.750	128.3619	5.25	+0.07	+0.10	+0.27	-0.70
Austria	07/00	5.875	103.6800	3.52	-0.04	-0.08	+0.01	-0.86
	01/08	5.000	106.6300	4.24	-0.01	-0.14	-0.15	-1.34
Belgium	01/00	4.000	100.6439	3.41	-0.03	-0.07	-0.02	-0.89
	03/08	5.750	111.2377	4.28	-0.01	-0.12	-0.08	-1.37
Canada	12/00	5.000	100.2300	4.88	+0.01	+0.07	+0.34	+0.76
	06/08	6.000	106.2200	5.16	-0.03	-0.04	+0.08	-0.30
Denmark	11/00	9.000	109.3600	3.93	-	-0.08	-0.21	-0.80
	11/07	7.000	118.2600	4.40	+0.01	-0.18	-0.22	-1.48
Finland	01/99	11.000	100.9470	2.84	-0.04	-0.15	-0.08	-1.32
	04/08	6.000	112.9850	4.29	+0.02	-0.15	-0.19	-1.44
France	07/00	4.000	100.8251	3.39	-0.02	-0.11	-0.02	-0.95
	10/05	7.750	123.5500	3.80	-	-0.11	-0.06	-1.42
	10/08	8.500	135.0800	4.11	+0.01	-0.13	-0.13	-1.36
	04/29	5.500	[illegible]	4.96	-0.02	-0.20	-0.22	-1.07
Germany	06/00	4.000	100.9000	3.38	+0.01	-0.15	-0.01	-0.84
	10/05	8.500	115.2900	3.82	-	-0.12	-0.10	-1.35
	07/08	4.750	105.6300	4.03	-	-0.12	-0.11	-1.47
	01/28	5.625	109.3100	5.01	+0.01	-0.18	-0.21	-1.08
Ireland	10/01	6.500	107.8800	3.59	-0.01	-0.14	-0.14	-1.76
	08/08	6.000	113.3000	4.30	-	-0.12	-0.15	-1.83
Italy	04/01	4.500	102.0000	3.56	-0.05	-0.18	-0.07	-1.64
	07/03	4.500	103.1300	3.76	-0.03	-0.16	-0.16	-1.73
	05/08	5.000	105.5600	4.27	-0.01	-0.16	-0.16	-1.67
	11/27	6.500	119.2200	5.20	+0.01	-0.20	-0.33	-1.26
Japan	12/00	6.900	113.5700	0.26	+0.01	+0.03	-0.10	-0.10
	12/02	4.100	117.1800	0.64	+0.02	+0.06	-0.08	-0.62
	05/03	[illegible]	107.6800	0.96	+0.03	+0.07	+0.06	-0.83
	03/10	2.700	117.0000	1.67	+0.05	+0.15	+0.20	-0.98
Netherlands	05/00	9.000	107.7900	3.40	-	-0.14	-0.03	-0.93
	07/07	5.250	108.2400	4.11	-0.01	-0.13	-0.10	-1.36
New Zealand	02/01	8.000	105.6506	5.08	+0.03	-0.21	-0.31	-1.66
	07/09	7.000	110.0735	5.65	+0.04	+0.03	+0.10	-0.96
Norway	01/99	9.000	100.0300	7.92	+0.10	-0.00	+0.34	+3.53
	01/07	6.750	109.1500	5.33	-0.02	-0.23	-0.17	-0.29
Portugal	03/01	5.375	102.2700	3.56	-	-0.02	+0.03	-1.37
	06/08	5.375	107.7400	4.36	-	-0.12	-0.12	-1.52
Spain	01/00	6.750	104.2140	3.42	-0.03	-0.05	-0.02	-1.26
	01/08	6.000	112.4400	4.33	-	-0.13	-0.16	-1.48
Sweden	05/00	10.250	109.8440	3.74	-0.02	+0.06	-0.44	-1.38
	05/09	5.500	115.4890	4.45	+0.03	-0.14	-0.30	-1.78
Switzerland	06/00	4.500	104.4500	1.52	+0.03	+0.05	+0.22	-0.49
	01/08	4.250	114.9000	2.41	-0.06	-0.10	-0.35	-1.11
UK	11/01	7.000	104.0100	5.10	+0.03	-0.06	-0.14	-1.81
	12/03	6.500	107.2900	4.83	+0.03	-0.08	-0.22	-1.80
	10/09	9.000	[illegible]	4.84	+0.02	-0.06	-0.37	-1.88
	12/28	6.000	121.9500	4.64	+0.04	+0.09	-0.37	-1.82
US	09/00	4.500	99.8320	4.64	+0.03	-0.06	+0.54	-1.07
	08/03	5.250	102.4180	4.67	+0.01	-0.05	+0.40	-1.20
	05/08	5.625	105.5617	4.88	-0.01	-0.09	+0.21	-0.97
	08/28	5.500	103.7319	5.25	-0.05	-0.09	+0.08	-0.88
ECU	07/10	4.000	101.2600	3.44	-0.04	-0.13	-0.04	-1.23
	04/18	5.250	103.6300	4.12	+0.01	-0.14	-0.14	-1.52

London closing. * New York mid-day. Source: Interactive Data/FT Information
Yields: Local market standard. Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by non-residents.

10 YEAR BENCHMARK SPREADS

Nov 24	Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.26	+1.24	+0.42
Austria	4.20	+0.18	-0.64
Belgium	4.30	+0.23	-0.54
Canada	5.16	+1.14	+0.32
Denmark	4.43	+0.41	-0.41
Finland	4.33	+0.31	-0.51
France	4.12	+0.10	-0.72
Germany	4.02	-	-0.82
Ireland	4.32	+0.30	-0.52
Italy	4.37	+0.35	-0.47
Japan	0.99	-3.04	-3.86
Netherlands	4.10	+0.08	-0.74
New Zealand	5.64	+1.62	+0.80
Norway	5.34	+1.32	+0.50
Portugal	4.37	+0.35	-0.47
Spain	4.44	+0.42	-0.40
Sweden	4.47	+0.45	-0.37
Switzerland	2.49	-1.53	-2.35
UK	4.85	+0.83	+0.01
US	4.84	+0.82	-
ECU	4.19	+0.17	-0.65

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Nov 24	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB-	91.3625	10.18	+0.23	-1.97	+5.55
Poland	07/04	7.125	BBB-	102.5874	6.33	+0.04	+0.03	+1.67
Russia	06/07	10.000	n/a	30.5000	37.45	+1.99	-9.83	+32.66
LATIN AMERICA								
Argentina	09/27	9.750	BB	89.7500	10.92	+0.13	-0.50	+5.73
Brazil	05/27	10.125	BB-	75.6560	13.49	+0.26	-1.16	+8.30
Mexico	05/26	11.500	BB	108.2500	10.57	+0.08	-0.52	+5.40
ASIA								
China	07/06	7.750	BBB+	104.1114	7.02	+0.02	-1.63	+2.27
Philippines	10/16	8.750	BB+	92.0683	9.69	+0.23	-1.09	+4.70
Thailand	04/07	7.750	BBB-	93.4956	8.86	-0.02	-1.78	+4.07
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	103.9987	6.48	+0.23	-0.30	+1.80
South Africa	10/06	8.375	BB+	86.9412	10.92	[illegible]	-0.31	+6.17
Turkey	03/07	10.000	B	93.3581	11.21	+0.12	-2.56	+6.42
BRADY BONDS								
Argentina	03/23	5.750	BB	72.6250	8.72	+0.08	-0.31	+3.60
Brazil	04/14	5.000	BB-	65.8750	12.56	+0.36	-0.39	+7.61
Mexico	12/19	6.250	BB	77.6250	8.56	+0.13	-0.23	+3.52
Venezuela	03/20	6.750	B+	66.2500	10.83	+0.10	-0.17	+5.77

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	110.08	110.18	-0.10	110.24	109.86	80,513	81,991

LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Dec	CALLS -	CALLS -	PUTS Dec	PUTS -	PUTS -
108	2.16	-	-	0.01	-	-
109	1.16	-	-	0.11	-	-
110	0.39	-	-	0.25	-	-
111	0.01	-	-	1.82		-

Est. vol. total, Calls 5,456 Puts 4,250. Previous day's open int., Calls 31,786 Puts 42,164.

Germany

NOTIONAL GERMAN BUND FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	113.80	113.86	+0.16	113.94	113.48	369,371	590,887
Mar	114.00	114.16	+0.10	114.25	113.89	12,630	45,169

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Jan	PUTS Feb	PUTS Mar
11400	0.81	1.06	1.30	0.58	0.81	1.05
11450	0.56	0.81	1.05	0.81	1.06	1.30
11500	0.37	0.60	0.84	1.12	1.35	1.59

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 0

NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	108.24	108.31	+0.04	108.40	108.18	116,088	261,345
Mar	108.23	108.27	+0.05	108.31	108.23	7,582	31,116

NOTIONAL LFB SWAP FUTURES (LIFFE)* 5yr 4.5% DM250,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	100.40	100.48	-0.02	100.48	100.40	190	1035
Mar		100.22	-0.02			0	0

NOTIONAL LFB SWAP FUTURES (LIFFE)* 10yr 4.5% DM250,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	99.90	99.85	-0.11	99.85	99.90	75	1370
Mar		99.60	-0.11			0	0

Also traded on APT. All Open interest figs. are for previous day

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	111.67	112.02	+0.07	112.07	111.60	19886	57546
Mar	112.09	112.10	+0.08	112.14	111.98	1147	8734

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Jan	CALLS Feb	PUTS Jan	PUTS Feb
11200	0.58	0.85	0.46	0.78
11250	0.35	0.62	0.75	1.02
11300	0.20	0.43	1.10	1.33

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 0

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	115.40	115.62	+0.03	115.66	115.18	34,380	54,758
Mar	-	114.02	-	-	-	-	-

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec		107.95	-0.14			0	1584
Mar		108.05	-0.14			0	0

NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	115.75	115.85	-0.15	116.10	115.50	58727	97728
Mar	115.86	116.11	-0.15	116.25	115.79	21022	22754

LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

Strike Price	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Jan	PUTS Feb	PUTS Mar
11600	1.15	1.69	1.82	1.04	1.58	1.71
11650	0.90	1.45	1.58	1.29	1.84	1.97
11700	0.68	1.23	1.35	1.57	2.12	2.25

Est. vol. total, Calls 136 Puts 793. Previous day's open int., Calls 2904 Puts 1264

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	127-16	127-20	+0-02	127-25	127-03	343,778	595,601
Mar	127-08	127-11	+0-02	127-17	126-28	70,023	290,867
Jun	-	126-25	-	-	-	69	3,402

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	138.25	138.28		138.38	138.10	1521	n/a
Mar	137.34	137.41		137.41	137.34	753	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	106.00	106.16	-0.29	106.30	106.00	198	323

US CORPORATE BONDS

Nov 23	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA-	105.0804	5.37	-0.01	+0.08	+0.77
NY Tel	08/25	7.00	A+	102.0565	6.82	-	-0.11	+1.57
CWE	05/08	8.00	BBB	113.8636	6.05	+0.01	-0.10	+1.22
FINANCIALS								
GECC	06/07	8.75	AAA	120.3399	5.59	+0.02	+0.14	+0.88
Banc One	08/02	7.25	A	105.4593	5.57	-0.01	+0.05	+0.97
CNA Fin	01/18	6.95	A-	93.8304	7.59	+0.07	+0.28	+2.34
INDUSTRIALS								
WMX Tech	04/08	6.25	BBB+	100.1456	5.76	-0.06	+0.09	+1.40
Wal Mart	05/02	6.75	AA	105.3287	5.06	-0.01	+0.08	+0.45
Dayton Hud	08/21	9.70	[illegible]	133.4681	6.77	+0.01	-0.13	+1.52
AGENCIES								
FHLMC	04/07	7.14	N/A	112.1878	5.31	+0.01	-0.05	+0.46
SLMA	03/00	7.50	N/A	102.9831	5.07	-0.01	+0.26	+0.44
FNMA	02/18	8.95	N/A	138.7664	5.62	-0.09	-0.42	+0.37
FFCB	06/06	8.85	N/A	122.9484	5.22	-0.01	-0.11	+0.39
HIGH YIELD								
Stone Cont	02/01	9.88	B	102.0000	0.00	-	-	-
AK Stl	12/01	9.13	BB-	105.7500	0.00	-	-	-
Pacific	08/04	10.75	B-	87.0000	0.00	-	-	-

NY closing. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	7¾	One month	-	Two year	4.68
Broker loan rate	6½	Two month	-	Three year	4.65
Fed.funds	4⅝	Three month	4.57	Five year	4.63
Fed.funds at intervention	-	Six month	4.62	10-year	4.87
		One year	4.59	30-year	5.24

INTERNATIONAL BONDS

Nov 24	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
EURO DM								
EIB	02/07	5.750	AAA	118.1000	4.28	-0.02	-0.07	+0.21
Spain	01/07	5.750	AA	109.0000	4.33	+0.03	-0.03	+0.2[illegible]
Philip Morris	03/04	5.375	A	104.2088	4.48	+0.02	-0.07	+0.57
Finland FRN	09/02	3.531	AA	100.5411	2.98	+0.01	-0.12	-0.57
EURO FFR								
Austria	01/04	5.500	AAA	107.5100	3.86	-	-0.08	+0.16
Abbey Nat	02/04	6.000	AA	109.4900	3.95	-	-0.09	+0.24
Cred Foncier	02/04	8.125	A	122.8500	4.20	-0.01	-0.11	+0.49
3CF FRN	12/01	3.817	AA-	99.8844	3.40	-	-0.05	-0.09
EURO LIRA								
EIB	02/07	7.000	AAA	118.0000	4.34	+0.02	-0.06	+0.08
Abbey Nat	02/02	6.600	AA	109.8800	3.62	-0.03	-0.11	+0.11
Walt Disney	08/00	8.625	A	107.0100	3.90	-0.03	-0.09	+0.31
EIB FRN	03/01	4.740	AAA	100.0404	3.35	-0.06	-0.11	-0.25
EURO £								
EIB	12/07	7.625	AAA	115.4183	5.42	-0.01	-0.41	+0.82
Dresdner Bk	12/07	7.750	AA-	107.5828	6.61	-0.01	-0.48	+1.81
British Gas	03/00	7.625	A+	101.8000	6.23	+0.01	-0.27	+0.86
Abbey Nat FRN	02/02	7.136	AA	100.1570	4.87	+0.01	-0.28	-
EURO $								
EIB	04/07	7.250	AAA	112.1400	5.41	+0.04	+0.15	+0.62
ABN Amro	06/07	7.125	AA-	103.8851	6.51	+0.03	+0.31	+1.72
Quebec	01/07	7.000	A+	106.9752	5.91	+0.03	+0.37	+1.12
Citicorp FRN	02/04	5.750	A+	98.2975	6.59	+0.02	+0.28	+1.93
EURO C$								
Bayer L-Bk	08/04	9.500	AAA	118.9921	5.52	+0.02	+0.15	+0.18
Toronto	05/04	8.500	AA-	114.0000	5.46	+0.02	+0.15	+0.12
Bell Canada	07/00	10.625	A+	103.1233	5.32	+0.01	+0.37	+0.96
Deutsche Fi Bk	06/02	5.875	AA-	101.0620	5.56	+0.01	+0.30	+0.31
EURO YEN								
World Bank	03/02	5.250	AAA	115.9775	0.39	+0.01	-0.08	-0.15
Spain	03/02	5.700	AA	117.5085	0.43	+0.01	-0.04	-0.11
Cred Foncier	08/02	4.750	A	113.8259	0.93	+0.01	-0.01	+0.39
Italy FRN	07/99	0.461	AA	100.0734	0.16	+0.02	+0.18	-0.01

London closing. Standard & Poor's ratings. Yields: Local market standard/Annualised basis. Source: Interactive Data/FT Information

UK BONDS

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Tue Nov 24	Day's change %	Mon Nov 23	Accrued interest	xd adj. ytd
1 Up to 5 years (17)	121.68	-0.03	121.73	2.56	4.77
2 5-15 years (19)	173.41	-0.13	173.63	3.38	8.92
3 Over 15 years (4)	227.67	-0.36	228.40	5.37	8.20
4 Irredeemables (6)	302.34	-0.85	304.92	0.93	14.65
5 All stocks (46)	184.82	-0.15	185.07	3.38	9.03

UK Indices (yield tables for 5 yrs, 15 yrs, 20 yrs, Irred.†; Index-linked 6 Up to 5 years (2), 7 Over 5 years (9), 8 All stocks (11)): [illegible]

FT Fixed Interest Indices: [illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

CURRENCIES & MONEY

Profit-taking caps recent dollar gains

MARKETS REPORT

By Alan Beattie

The dollar softened slightly yesterday on profit-taking, following recent gains against the D-Mark and yen.

Data revising up US economic growth by a smaller than expected margin gave investors holding dollars a perfect opportunity to cash in on the greenback's progress.

The second estimate of US third quarter gross domestic product (GDP) came in at an annualised rate of 3.9 per cent, a touch lower than the market's expected outturn of 4 per cent.

This, combined with a fall in US stock prices, pushed the dollar lower to close in London trading at DM1.705, almost unchanged against the D-Mark, and down slightly at Y120.7 versus the yen.

Sterling outperformed the dollar, closing nearly a cent up at $1.662 compared with $1.653 on Monday.

Traders appeared to be focusing temporarily on the high yields available in the UK. But the forthcoming Confederation of British Industry (CBI) industrial trends survey, due out later this week, may rapidly reverse those gains if it shows continued weakness in business confidence.

■ The dollar's slip is unlikely to be prolonged. Apparent divisions in the newly formed Japanese political coalition over sales tax reform may disappoint observers hoping that Japan is about to turn a corner.

And a US consumer confidence indicator released after the GDP data showed optimism flooding back after four consecutive monthly falls in the index.

"The fundamentals are clearly positive for the dollar against the yen," said Jeffrey Woodruff, foreign exchange strategist at BankBoston in London.

"As long as international investors are happy to put money into the US to fund the current account deficit, the dollar should continue to strengthen against the yen."

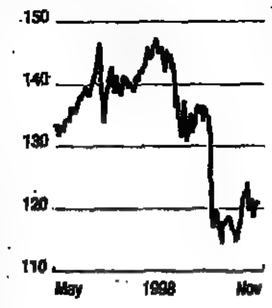
Even by recent standards, the market was thin yesterday and few analysts saw much fundamental news in the dollar's correction.

"With a Japanese public holiday at the beginning of the week and [US] Thanksgiving at the end of it, the dollar-yen rate was always likely to lack direction," said Mr Woodruff.

In the short term this was likely to mean the US currency trading against the yen in a fairly narrow range, he said.

Dollar

Against the yen (¥ per $)



Source: Datastream/ICV

"But in the longer term I am bullish for the dollar against the yen," he added.

■ Sweden's central bank unexpectedly cut its repo interest rate by 25 basis points yesterday, but the Swedish krona survived unscathed.

Most analysts had expected the cut to come no earlier than next week when the Riksbank issues its inflation report. But the central bank justified its decision by projecting inflation in two years' time to be below the target level of two per cent.

Despite the cut, the krona continued to strengthen on renewed confidence in the economy and greater investor enthusiasm for Swedish equities.

The growing prospect of an early Swedish entry into European and monetary union (EMU), apparent in an opinion poll published over the weekend, also underpinned the krona, which closed at SKr4.733 against the D-Mark, up from SKr4.755 on Monday.

"This cut came earlier than I had expected," said Peter Lindqvist of HSBC in Stockholm. "It suggests a sea change in the Riksbank's strategy, and a further rate cut should come, though not until next year."

Mr Lindqvist said the rate cut had little effect on the krona. "Earlier in the year, there were huge sell-offs in Swedish equities, but the improvement in global sentiment means that the weakest levels have passed and we could see a stronger trend in the krona," he said.

Expectations that Sweden could sign up to the euro grew over the weekend with the publication of an opinion poll suggesting that, for the first time, a majority of the population would support such a move.

"I think there is a good chance that Sweden will enter EMU as early as 2001 or 2002, earlier than is commonly believed," said Mr Lindqvist.

■ POUND IN NEW YORK

Nov 24	—Latest—	— Prev. close —
£ spot	1.6585	1.6570
1 mth	1.6580	1.6544
3 mth	1.6522	1.6505
1 yr	1.6399	1.6379

■ OTHER CURRENCIES

Nov 24	£	$
Czech Rep	50.9297 - 51.0123	30.6580 - 30.6970
Hungary	365.979 - 366.394	220.310 - 220.480
Iran	4985.40 - 4983.80	3000.00 - 3000.00
Kuwait	0.5033 - 0.5044	0.3030 - 0.3035
Peru	5.1530 - 5.1582	3.1020 - 3.1040
Poland	5.7577 - 5.7681	3.4650 - 3.4710
Russia	29.7355 - 30.0786	17.9000 - 18.1000
U.A.E.	6.1013 - 6.1040	3.6728 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Nov 24		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	19.9265	+0.1055	170 - 355	19.9364	19.8390	19.868	3.5	19.7679	3.2	19.3881	2.7	103.4
Belgium	(BFr)	58.4164	+0.3077	748 - 821	58.4670	58.1480	58.2473	3.5	57.9541	[illegible]	56.8297	2.7	103.2
Denmark	(DKr)	10.7676	+0.0076	625 - 726	10.7730	10.7230	10.7482	2.4	10.7024	2.4	10.543	2.1	107.0
Finland	(FM)	8.6118	+0.0437	058 - 173	[illegible]	8.5800	8.5872	3.4	8.5433	3.2	8.3799	[illegible]	82.5
France	(FFr)	9.4987	+0.0496	929 - 005	9.5037	9.4550	9.4695	3.5	9.4207	3.2	9.2372	2.7	106.8

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Nov 24		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	11.9923	+0.0001	895 - 951	12.0532	11.9850	11.9785	1.6	11.9433	[illegible]	11.8010	1.8	103.2
Belgium	(BFr)	35.1600	-	400 - 800	35.3330	35.1350	35.112	1.5	35.0145	1.7	34.59	1.6	103.3
Denmark	(DKr)	6.4806	+0.0007	789 - 826	6.5121	6.4775	6.4779	0.5	6.4661	0.9	6.4171	1.0	105.3
Finland	(FM)	5.1830	-0.001	805 - 865	5.2075	5.1800	5.1764	1.5	5.1618	[illegible]	5.1005	1.6	81.8
France	(FFr)	5.7158	-0.0002	145 - 170	5.7442	5.7120	5.7082	1.6	5.6918	1.7	5.6224	1.6	108.4

WORLD INTEREST RATES

MONEY RATES

EURO CURRENCY INTEREST RATES

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

■ D-MARK FUTURES (IMM) DM 125,000 per DM

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

■ STERLING FUTURES (IMM) £62,500 per £

UK INTEREST RATES

LONDON MONEY RATES

EMS EUROPEAN CURRENCY UNIT RATES

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

■ EURIBOR OPTIONS (LIFFE) points of 100%

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

BASE LENDING RATES

● Members of London Investment Banking Association

RECYCLING TRADING TO BE PROMOTED IN PAPER, PLASTICS, METALS AND GLASS

Environment Exchange for London

By Paul Solman

Europe's first exchange for trading recyclable commodities will be launched today in London. The Environment Exchange will promote trading in materials such as paper, plastic, metals and glass, and is a response to new European Union regulations that require member states to recover 50-65 per cent of waste packaging materials by 2001, and recycle at least half that amount.

The exchange has been set up in co-operation with OM Group, which runs the Stockholm Exchange and trades financial and Pulpex wood pulp futures and options in London. Trading will take place through a combined internet and telephone system, based at OM Group London offices.

Angus Macpherson, who developed the exchange, hopes to provide an open and transparent market for UK companies to help them meet their EU obligations. The UK is the first country to enshrine the EU Environmental Directive in national legislation, and the regulations will affect 19,000 companies by 2001, he said.

Businesses with an annual turnover of more than £5m ($8.3m) and handling more than 50 tonnes of packaging must hold Package Recovery Notes (PRNs) to prove they are fulfilling their packaging recovery and recycling obligations.

Those that recover or recycle more than their required amount can sell their excess PRNs to other businesses. Since the UK regulations were introduced last year, businesses have been trading PRNs "over-the-counter" between themselves and via brokers.

The Environment Exchange will provide a publicly accessible internet bulletin board to match sellers and buyers. Trades will be completed via a telephone ordering service, though Mr Macpherson said he hoped the exchange would eventually move to a fully screen-based trading system.

There are six types of PRN. Individual commodity recycling notes are issued for glass, aluminium, paper, plastic and steel, and a general note is issued for the recovery of non-specific materials.

The Environment Exchange web site is www.2te.co.uk.

Forest gloom in Canada's west

Several factors have combined to create the worst time for the ailing timber industry in British Columbia, writes **Edward Alden**

Tom Stephens has had to develop an ironic sense of humour in his first year as president and chief executive of MacMillan-Bloedel, the Canadian forest products company.

When the Arkansas-born Mr Stephens was lured to Canada's rainy west coast to turn the ailing forest giant round, he inherited a company with stock, he says, that "had been deadline flat at 18 bucks for 18 years".

"After a year of the hardest work I've ever done in my life, we have solved the $18 problem," he says. "It's now down to $15."

Such is the black humour that has taken hold of the forest industry in British Columbia, which is going through its most difficult period since the pioneering H. R. MacMillan first set foot in the province in 1907 to establish it.

The industry has been caught in a squeeze by the collapse of Asian markets, trade restrictions on lumber exports to the US, expensive timber-cutting fees and environmental restrictions.

In the second quarter, the 15 largest forest products companies in western Canada posted an aggregate net loss of C$182.3m (US$118m) bringing first-half losses close to C$300m, according to PricewaterhouseCoopers.

Where British Columbia was once synonymous with the highest-quality softwood lumber in the world, it has now become infamous as the most expensive place on the planet to cut down trees.

So far this year, 12 sawmills and pulp mills in the province have been shut, temporarily or permanently. Bowater, the US group that recently acquired Avenor in Canada, closed a mill on Vancouver Island, firing 380 employees in a one-industry town of 2,000 people.

British Columbia, which produced about 60 per cent of Canadian lumber five years ago, will account for only 46 per cent this year, according to Widman Associates, the Vancouver forestry consultants.

The province's lumber industry has been hurt more than any other in North America by the crisis in Asia. Japanese housing starts are down 14 per cent over last year, drying up the most important market for coastal timber companies. In the most recent quarter, MacMillan-Bloedel's exports to Japan fell 47 per cent year-on-year.

A decade-long trade dispute with the US has also taken its toll. Faced with cases brought by US lumber producers, who say the province's timber pricing system is an illegal subsidy, Canada agreed in 1996 to a voluntary export quota. That quota has capped exports to the US at a time when the US economy is booming, with housing starts up 10 per cent.

"The biggest market in the world is 20 miles from my office and I can't ship them any wood," laments Mr Stephens.

Despite the US subsidy charges, the province has actually raised its timber cutting fees far above other Canadian provinces, on top of imposing costly environmental regulations to reduce damage to wildlife habitat and fish-bearing streams.

The MacMillan-Bloedel chief says the industry itself is to blame for much of its own misfortune. His company, he said, had lost touch with its employees, and was "over-managed and under-led".

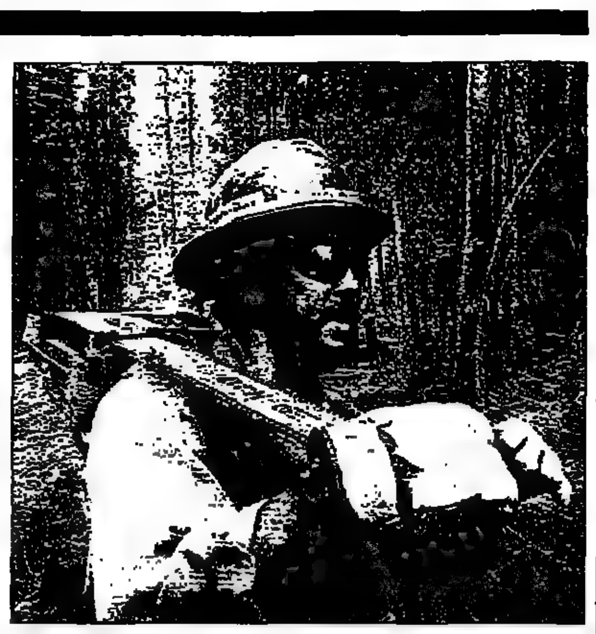
Faced with the impending closure of several high-cost mills, Mr Stephens went directly to the employees, imploring them to find ways to bring productivity up and costs down. At one mill that lost C$9m last year, employees responded by raising productivity by 52 per cent and turning a slight profit at a time when lumber prices were 35 per cent lower than a year earlier.

He sold the paper division, eliminating a quarter of the workforce and taking the largest restructuring write-downs in its history this year. Other provincial companies are beginning to follow that lead. His strategy appears to be paying off, with the share price recently going above C$17.

MacMillan-Bloedel is considered the most likely candidate to acquire some of the smaller logging companies and rationalise a fragmented industry.

However, Mr Stephens says he is not in the market for acquisitions unless there is a recovery in Japan, greater access to the US and possibly some reform in the timber fee system.

The potential rewards of expanding in the province are still too few, he says. "Nobody is making any money, and there's too much risk for the reward that we see."



Chain reaction: the Asian crisis has hurt the British Columbian lumber industry more than any other in North America AP

Fall seen in South American wheat crop

By Paul Solman

Wheat production in South America is expected to total 14.8m tonnes this year, 25 per cent below last year's level of 19.8m tonnes, according to the International Grains Council.

Wheat planting in Argentina – the region's biggest producer – has shrunk over the past two years as world prices have fallen and farmers have been attracted by higher profits from competing crops, such as oilseeds, the council said in its latest Grain Market Report.

"Among field crops, wheat may compete with coarse grains, but high prices have attracted greater interest in soyabeans and sunflowers," the IGC said. "The construction of several new oilseed crushing facilities and strong export demand for oil and meals has encouraged this trend."

Argentina harvested a record area of 7.1m hectares in 1996, against 4.7m hectares this year.

However, increased production from Australia means that total wheat output in the southern hemisphere will only fall to 39m tonnes from 42.3m tonnes last year. Australia is the southern hemisphere's largest producer, accounting for 22m tonnes this year against 19.4m tonnes last year.

"Confirmation of long-rumoured food assistance for Russia has underpinned the grain market," the IGC added. Russia's wheat output for 1998 is estimated at 27m tonnes compared with 44.2m tonnes in 1997.

The IGC puts world wheat production this year at 584m tonnes, 3m tonnes lower than its previous estimate because of falling output in Argentina. Global consumption is forecast at 3m tonnes higher than previously at 594m tonnes, mainly due to increased feed use in the US.

Oil subdued ahead of Opec meeting

MARKETS REPORT

By Paul Solman and Kenneth Gooding

World oil markets were subdued yesterday ahead of the meeting of the Organisation of Petroleum Exporting Countries, due to start today in Vienna.

In late trading on London's International Petroleum Exchange, the benchmark January contract for Brent blend was $11.28 a barrel, compared with Monday's close of $11.30.

Although Opec will discuss *faltering crude prices*, most market observers believe the summit is unlikely to yield any firm action to extend existing production cuts and tackle the oversupply in the market.

Robusta coffee futures prices surged on the London International Financial Futures and Options Exchange after reports that Vietnam, one of the world's largest robusta exporters, had suffered crop damage from heavy rains.

Liffe's most actively traded January contract had reached $1,668 a tonne around midday, $32 above Monday's close. In the afternoon it jumped again and finished at $1,700, a gain of $64 on the day.

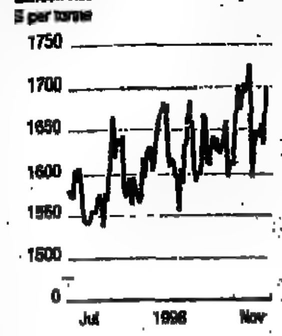
By contrast, cocoa futures finished at contract lows. The March contract closed at £990, down £7 from Monday's close. December futures were the most actively traded, closing down £6 at £952 on volume of 15,658 lots.

Ivory Coast said it would like to hold its cocoa production at 1m tonnes a year to support world prices. The country is the largest cocoa producer, harvesting a record 1.2m tonnes in 1995-96 and is forecasting a crop of 1.1m tonnes this year.

Activity on the London Metal Exchange was low ahead of the US Thanksgiving holiday tomorrow. Rhona O'Connell, in a special report for brokers T. Hoare, said most metals prices next year will be on average higher than present prices, "but this does not mean we are looking for a bull market. Far from it".

Coffee

London Robusta 2-month forward ($ per tonne)



Source: Datastream/ICV

Ms O'Connell is forecasting an average aluminium price next year of 66 cents a pound ($1,454.60 a tonne) compared with a forecast average of 63 cents ($1,388.50) this year.

The comparative forecasts for other LME metals are: copper, 75 cents a pound ($1,653 a tonne) against 77 cents ($1,697); lead, 23 cents ($507) the same as this year; zinc, 50 cents ($1,102) against 48 cents ($1,058), while nickel should range between $2.00 and $2.20 a pound ($4,408 to $4,848.80 a tonne), compared with $2.15 ($4,738.60) this year.

On the London bullion market, palladium closed nearly 2 per cent down at $276.25 a troy ounce after Japanese dealers reported Russia had offered to sell "as much as we wanted" of the metal.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1285.5-6.5	1296-7
Previous	1291-92	1300-00.5
High/low		1299/1290
AM Official	1280-81	1292-93
Kerb close		1296-7
Open int.	328,280	
Total daily turnover	54,241	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1075-80	1105-10
Previous	1073-78	1102-04
High/low		1105/1003
AM Official	1071-72	1102-04
Kerb close		1102-3
Open int.	7,385	
Total daily turnover	2,017	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	505-6	498-8.5
Previous	516-7	503
High/low		500/493
AM Official	506-7	498.5-9.5
Kerb close		493-4
Open int.	41,293	
Total daily turnover	17,345	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4090-100	4160-65
Previous	4130-40	4200-05
High/low		4190/4155
AM Official	4110-15	4180-85
Kerb close		4155-65
Open int.	64,224	
Total daily turnover	13,596	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5410-20	4395-400
Previous	5450-60	5430-35
High/low		5430/5375
AM Official	5430-40	5410-15
Kerb close		5375-80
Open int.	18,655	
Total daily turnover	10,840	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	992.5-3.5	1000-01
Previous	987.5-8.5	1005-06
High/low		1003/995
AM Official	979.5-80	990.5-97.5
Kerb close		[illegible]
Open int.	[illegible]	
Total daily turnover	[illegible]	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	[illegible]	[illegible]
Previous	[illegible]	[illegible]
High/low		[illegible]
AM Official	[illegible]	[illegible]
Kerb close		[illegible]
Open int.	[illegible]	
Total daily turnover	[illegible]	

■ LME AM Official £/$ rate: 1.6585

LME Closing £/$ rate: 1.6585

Spot 1.6553 3 mths: 1.6527 6 mths: 1.6471 9 mths: 1.6431

■ HIGH GRADE COPPER (COMEX)

[illegible]

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

[illegible]

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	296.4	-0.6	-	-	-	-
Dec	296.4	-0.7	297.3	296.1	23,146	28,963
Feb	298.6	-0.5	299.3	298.2	13,753	41,440
Apr	300.6	-0.5	301.2	300.5	570	17,360
Jun	302.4	-0.5	303.4	302.3	330	14,790
Aug	304.2	-0.4	[illegible]	304.3	149	5,976
Total						

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	354.6	+2.2	[illegible]	351.0	3,358	11,739
Apr	355.1	+2.2	[illegible]	352.0	774	1,393
Jul	[illegible]	+2.2	[illegible]	355.0	22	226
Oct	357.6	+2.2	-	-	2	995
Total					4,186	14,364

■ PALLADIUM NYMEX (100 Troy oz., $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	275.95	-5.30	277.00	274.00	543	906
Mar	274.20	-5.55	276.00	271.50	580	2,037
Jun	272.20	[illegible]	-	-	-	5
Total					1,123	3,075

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	488.2	-0.4	-	-	-	-
Dec	488.2	-1.0	490.5	485.5	11,137	24,404
Jan	490.4	-1.0	491.5	490.0	2	89
Mar	493.9	-1.0	496.0	491.5	8,202	31,954
May	497.0	-1.0	[illegible]	494.0	407	6,922
Jul	500.0	-1.2	503.0	498.5	104	5,772
Total						

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	12.33	-0.12	12.53	12.25	53,827	129.2k
Feb	12.70	-0.14	12.90	12.66	15,653	61,780
Mar	13.08	-0.13	13.27	13.06	8,561	38,574
Apr	13.40	-0.14	13.64	13.40	4,743	19,690
May	13.75	-0.10	13.77	13.75	1,502	17,043
Jun	14.00	-0.14	14.17	14.02	2,837	24,030
Total					[illegible]	[illegible]

■ CRUDE OIL IPE ($/barrel)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	11.28	-0.02	11.43	11.19	18,965	83,282
Feb	11.58	-0.03	11.72	11.53	8,347	41,735
Mar	11.88	-0.06	12.02	11.86	4,112	24,561
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

[illegible]

■ GAS OIL IPE ($/tonne)

[illegible]

■ NATURAL GAS IPE (1,000 therms, pence per therm)

[illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

[illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US galls, c/US galls)

[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

[illegible]

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

[illegible]

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

[illegible]

■ BARLEY LIFFE (100 tonnes; £ per tonne)

[illegible]

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

[illegible]

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

[illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton)

[illegible]

■ POTATOES LIFFE (20 tonnes; £ per tonne)

[illegible]

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

[illegible]

PULP AND PAPER

■ PULPEX OMLX (USD; 24 air dry tons)

[illegible]

FUTURES DATA

All futures data supplied by CMS.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

[illegible]

■ COCOA CSCE (10 tonnes; $/tonnes)

[illegible]

■ COCOA (ICCO) (SDR's/tonne)

[illegible]

■ COFFEE LIFFE ($ per tonne)

[illegible]

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

[illegible]

■ COFFEE (ICO) (US cents/pound)

[illegible]

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

[illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

[illegible]

■ COTTON NYCE (50,000lbs; cents/lbs)

[illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

[illegible]

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

[illegible]

■ CRB Futures (Base: 1967 = 100)

[illegible]

■ GSCI Spot (Base: 1970 = 100)

[illegible]

LME WAREHOUSE STOCKS (tonnes)

[illegible]

TEA

Tea from the Tea Brokers' Association Mombasa Fair general demand but at irregularly easier rates. Brighter BPs declined by up to 25 cents, with Mediums falling by about the same amount. Neater Lower Mediums were about 3-5 cents dearer but others and Plainer sorts were 5-10 cents easier. Apart from few selected lines that held firm, Brighter and Medium PFs declined by about 6-15 cents. Selected Lower Mediums were up to 8 cents dearer. Pakistan packers were more selective but the Bazaar was much more active. There was less demand from Egypt but buying for Sudan, the Middle East and Somalia was maintained.

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

[illegible]

■ LEAN HOGS CME (40,000lbs; cents/lbs)

[illegible]

■ PORK BELLIES CME (40,000lbs; cents/lbs)

[illegible]

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

[illegible]

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

[illegible]

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

[illegible]

■ NATURAL GAS Pence/therm

[illegible]

■ OTHER

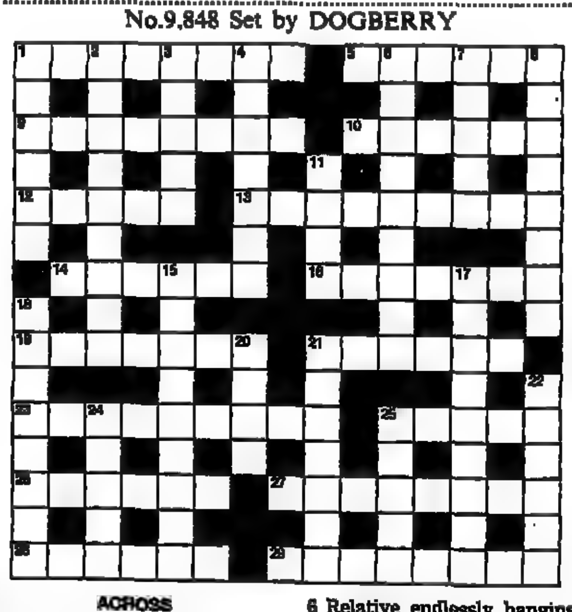
[illegible]

JOTTER PAD

For solutions to today's crossword call 0891 430080. Calls cost 50p a minute.

CROSSWORD

No.9,848 Set by DOGBERRY



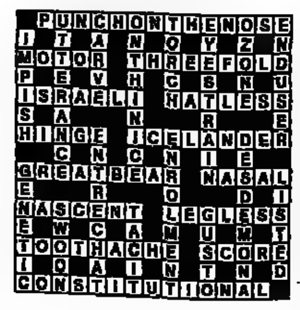
ACROSS

1 Race to pull off the festival (8)
5 Pretend to be in spasm it's a ploy (6)
9 Rejoice about flight having rhythmic energy (8)
10 Second feature lacking breadth (6)
12 Head teacher's disciplinary measure retrospectively put into effect (5)
13 Cooks joint in vessel (9)
14 Poetic address by fool turning to port (6)
16 Stone-clad little boy is most suitable (7)
19 Sharpen the ambassador's verse (7)
21 Perform incompetently on instrument without name (6)
23 Troubled butler with nut roast (9)
25 Charge a foreign strand (5)
26 Made off without silver plate or coat (6)
27 Ill omen about Welshman not a fussy eater (8)
28 Maybe saw a ship (6)
29 Return out of curiosity (8)

DOWN

1 Left German town to dwindle (6)
2 Prince and his spouse play the field? (9)
3 In registers of general English terminology the principles are often his (5)
4 A name is elusive if you have it (7)
6 Relative endlessly hanging round fruit machine (9)
7 Write off teenager's first spots (5)
8 David's defender treated Paul with tact (8)
11 Something of an insane Roman ruler (4)
15 Take a drink and harp on about universal decay (9)
17 Landmark of the Davis sound (9)
18 Concealed corset that is slipping (8)
20 Sheep on river vessel (4)
21 Sealant used with restraint by underground workers (7)
22 Secretary tore into co-producer (6)
24 Proper entitlement (5)
25 Nefarious business in cold and frost (5)

Solution 9,847



صكنا من الاجل

Oil subdued ahead of Opec meeting

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Jupiter Asset Management (Bermuda) Ltd

Newport Investment Management

Orion Fund Limited

BERMUDA (REGULATED)(**)

Marshall Wace Asset Management Limited

Masters International Advisors

Montgomery Emerging Markets Fund Ltd

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National Investment Trust Company Ltd

North Atlantic Management Co Ltd

Olympus Capital Management Ltd

Omega Overseas Partners Ltd

Opportunity Fund (z)

Orion Capital Advisors Ltd

The Osprey Group Of Funds

Pacific & General Investments Inc

Pakistan Fund

Paulson International Ltd

Perry Partners International Inc

Philippine Income Fund Inc

CAYMAN ISLANDS (REGULATED)(**)

GUERNSEY (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

IRELAND (REGULATED)(**)

IRELAND (FSA RECOGNISED)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

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Royal Bank of Scotland Fd Mgrs (Jersey) Ltd
PO Box 443 Ordnance House St Helier, Jersey 01534 875141

Royal Bank of Scotland International Ltd
PO Box 680 St Helier Jersey 01534 24965

Royal Bank of Scotland Intl Offshore Portfolio Limited

For TSB Fd Mgrs see Lloyds TSB Fd Mgrs

JERSEY
(REGULATED)(**)

ABSA Offshore Fund Managers (Jersey) Ltd

AIB Govett Management (Jersey) Limited

Govett Safeguard Funds Ltd

Aberdeen Fund Mngrs (Luxembourg) Ltd (u)
4 Boulevard Royal L 2449 Luxembourg 00 352 227001

American Phoenix Investment Portfolios (u)
13 rue Goethe, L-1637 Luxembourg 00 352 404646211

Bank Von Ernst & Cie AG
Marktgasse 63/65, 3001 Bern, Switzerland 0041 313291111

Foreign & Colonial Portfolios Fd Sicav(u)
47 Boulevard Royal, L-2449 Lux 00 352 4640101

Framlington International Portfolios
58, Allee Scheffer, L-2520 Luxembourg

Frontrunner I (u)
672 rue de Neudorf, L-2220 Luxembourg 00 352 435660

FT Global

Mercury Asset Management - Contd.

Mercury Offshore Stg Tst-SICAV (u)

Morgan Stanley Sicav

LUXEMBOURG
(REGULATED)(**)

ACM Offshore Funds

Credit Suisse Asset Mgmt Funds - Contd.

Merrill Lynch Asset Management - Contd.

UBS AG - Contd.

OFFSHORE INSURANCES

LUXEMBOURG
(FSA RECOGNISED)

ABN AMRO Funds (u)

هكذا من الاجل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

	Selling Price	Buying Price	+ or -	Yield Gross
Finexco International Ltd				
PO Box 193, St Peter Port, Guernsey 01481 713350				
Friends Provident International				
Albert House, Sth Esp'de, St Peter Pt, Gsy 01481 700210				
Managed				
UK Equity Growth				
Generali International Limited				
PO Box 77 Les Echelons Ct, St Peter Port, Gsy 01481 714108				
US Dollar Global Managed	$2.71	2.87	—	—
Stg Global Managed	£2.53	2.74	—	—
Hansard Europe Limited				
Fortcull Rd, Blackrock Co, Dublin +353 1 278 1400				
Royal & Sun Alliance Intl Financial Srvs				
Royal Court, Arbory Rd, Castletown IoM 01624 821212				
Royal Skandia Life Assurance Ltd (z)				
01624 611611				
Atlantic Investment Management, Inc				
Dresdner Bank Investment Group - Contd.				
Global Asset Management - Contd.				
Jardine Fleming Unit Trusts Ltd				
Mortimer & Scott				
Scudder, Stevens & Clark Inc				

OTHER OFFSHORE FUNDS

	Selling Price	Buying Price	+ or -	Yield Gross
AXA Asset Management				
Everest Capital Limited				
Global Asset Management - Contd.				
Vector Asset Management Ltd				
For ... see U.S Finance				
Victory Capital Limited				
Victory Capital Class A	$105.77	108.87	—	—
The Vietnam Frontier Fund				
Frontier Fund Management Co				
NAV (Fully Paid) Oct 31	$7.65		—	—
The Vietnam Fund Limited				
Rutherford Fund Managers (Guernsey) Ltd				
NAV Fully Paid Oct 31	$9.51		—	—
Worldwide Limited				
NAV Nov 23	$98.86		—	—
Xeryus Fund Management Ltd				
Xeryus Portfolio	$961.29		—	—
Xiphias International Investment Fd Ltd				
Zelaut Asset Management AG				
Zweig-DiMenna International Limited				
NAV Oct 31			—	—

● MANAGED FUNDS NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars.

FSA - Financial Services Authority

Selling price - Bid or redemption price.

Buying price - Offer or issue price.

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
[illegible]		631xd	[illegible]	646	325	6,958	4.8	13.9
[illegible]		355		417½	291½	28	5.3	15.3
[illegible]		[illegible]		[illegible]		90	-	-
[illegible]		[illegible]	-13	795	449½	3,464	2.9	20.8
[illegible]	†	[illegible]		950	665	-	2.6	18.6
[illegible]	†	823		985	610	-	[illegible]	44.7
[illegible]		252½	[illegible]	325	275	23	4.8	11.2
[illegible]		98	+1½	99½	88	-	6.0	-
[illegible]		645	+13	673½	416½	-	0.9	62.9
[illegible]	♣♦	780		783	775	1	6.8	8.2
[illegible]		22¾	[illegible]	74½	21½	-	-	ф
[illegible]		521½	+1½	528½	514½	-	1.2	-

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING - Continued

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

FOOD PRODUCERS - Continued

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Continued

HOUSEHOLD GOODS & TEXT

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

صكنا من الاصل

هكذا من الاصل

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Continued

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Continued

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Continued

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Continued

[illegible]

TELECOMMUNICATIONS

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Continued

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

TRADED INDEX SECURITIES

[illegible]

AIM

Alternative Investment Market

The Alternative Investment Market, designed primarily for small companies, is regulated by the London Stock Exchange but has less demanding rules than the SE Official list.

[illegible]

AIM - Continued

[illegible]

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by [illegible], part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. [illegible] Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are [illegible] London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. [illegible] Exchange prices.

Symbols referring to dividend [illegible] published on Monday.

Earnings used in calculations are based on [illegible] formula.

Price/earnings ratios are based on latest annual reports and [illegible] figures.

Yields are based on mid-prices, are gross, [illegible] rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums [illegible]

[illegible]

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £[illegible] a year for each security shown, subject to the Editor's discretion.

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FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details. Calls are charged at 50p per minute at all times.

An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.

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For Retail Price Index details call 0891 43 0805

The FT web site

London share prices are available throughout the trading day with a 20 minute delay from our web site, http://www.ft.com, which also has the closing share prices printed on these pages.

LONDON STOCK EXCHANGE

Profit-taking prompts a pause in Footsie's rally

MARKET REPORT
By Philip Coggan, Markets Editor

The recent rally by the London stock market had to run out of steam eventually and investors duly decided to take some profits yesterday.

Even the record-setting performance of Wall Street on Monday and some healthy gains by Asian markets yesterday were not enough to maintain the bullish impetus.

The FTSE 100 index did manage a small opening uptick, gaining 33.7 to 5,881.7 within the first hour. But the trend was fairly quickly downhill after that, until the low for the day of 5,773, down 75.4.

With Europe also slipping back over the day and Wall Street losing some ground at the opening, Footsie faced an uphill battle. At the close, it was down 50.1 at 5,798.3, ending the run of three successive triple-digit gains.

For once, the medium and smaller stocks outperformed the blue chips. The FTSE 250 closed up 22.7 at 4,923.9 with the SmallCap 4.3 ahead at 2,064.7.

For once there was little in the way of corporate news, apart from some weaker-than-expected results from EMI and a profit warning from Sterling Industries. Parkland, the textiles group, became the latest small company to leave the market via a management buyout.

The market was not helped by a continuation of the recent strength of sterling, which moved up from 101.1 to 101.6 on the Bank of England's trade-weighted index and gained 1½ pfennigs against the D-Mark to DM2.832.

A pause for breath after a 1,200-point rise in seven weeks, which saw four-fifths of the ground lost in the late summer correction regained, was understandable.

The speed of the rally took the dividend yield on the FTSE All-Share index back below 3 per cent on Monday, traditionally a sign shares are looking pricey. The historic price-earnings ratio on the All-Share is well over 20, a level the market has found difficult to sustain over the last 30 years.

Richard Bernstein at Schroders is worried the market has forgotten about the pressures on corporate profits. "Experience of the last economic downturn illustrates the sensitivity of operating margins and hence earnings to a combination of top-line pressures and rising unit labour costs" he says.

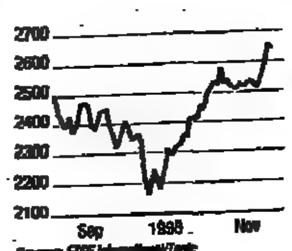
"We believe that the latest bottom-up consensus earnings estimates for growth of 13 per cent in 1999 are unrealistically high. Our model suggests an earnings decline of 1 per cent for 1999.

"On this basis we calculate that the UK equity market is trading at 21 times 1999 earnings rather than the 18.5 times derived from consensus bottom-up estimates. This compares with a long run average p/e for the market of 14."

But technical analysts continue to be happy with the strength of the rebound. Chartist Brian Marber says that "having held above 5,413.9 on a closing basis, Footsie is still on course to retrace 100 per cent of the fall, by rising to 6,179".

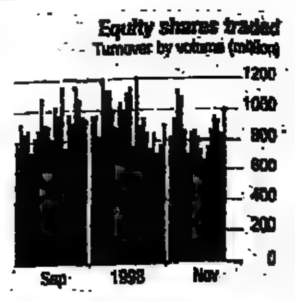
Volume was a very healthy 1.03bn shares by the 6pm count, helped by a further flurry of activity in merger candidates BTR and Siebe. Non-Footsie stocks made up 52 per cent of the total.

FTSE All-Share Index



Source: FTSE International/Topic

Equity shares traded
Turnover by volume (million)



Indices and ratios

FTSE 100	5798.3	-50.1	FT 30	3485.1	-46.0
FTSE 250	4923.9	+22.7	FTSE Non-Fins p/e	21.78	21.94
FTSE 350	2745.2	-17.6	FTSE 100 Fut Dec	5835.0	-75.0
FTSE All-Share	2648.51	-16.06	10 yr Gilt yield	4.92	4.90
FTSE All-Share yield	2.95	2.93	Long gilt/equity yld ratio	1.68	1.68

Best performing sectors
1 Paper: Pckg & Printing +3.2
2 Tobacco +2.1
3 Other Financial +1.8
4 Distributors +1.3
5 Leisure & Hotels +1.0

Worst performing sectors
1 Electronic & Elect Equip -2.2
2 Water -2.1
3 Telecommunications -1.8
4 Breweries: Pubs & Rest. -1.5
5 Engineering: Vehicles -1.5

Airtours slips on bid talk

COMPANIES REPORT
By Joel Kibazo and Martin Brice

Airtours retreated as speculation mounted that the tour operator would soon launch a bid for rival First Choice – the group it failed to win in 1993. The latest takeover rumours came after Airtours, which reported profits at the top end of expectations, said it would raise £350m through a bond issue.

The company said it would use the proceeds for general corporate business and to enlarge its operations when suitable acquisition opportunities emerged.

First Choice shares closed 5¼ ahead at 99½p, while those of Airtours declined 25 or 5.75 per cent to 410p.

But several analysts later discounted rumours of a bid for First Choice and one said: "I think they are looking for an acquisition but I think it will most probably be in the United States where the company wants to move ahead. They may also look at opportunities in Europe."

Dealers also attributed the decline to investors selling ordinary shares to begin investing in the convertible bonds, and profit-taking following a good run.

Siebe and BTR were again among the busiest stocks, with 31m and 28m traded respectively. But both shares eased, with BTR down 4 at 129p and Siebe down 8 at 235p. At yesterday's close, the terms of the merger valued BTR shares at 125½p.

JP Morgan yesterday downgraded its stance on Siebe to "market performer" and told clients: "We believe that the proposed BTR merger dilutes Siebe's quality image and increases the risk profile of the company."

Fidelity, the US investment group, said yesterday it had bought 2.4m Siebe shares at $3.81 each while Guardian Royal Exchange had sold 750,000 at 235p. Henderson paid 233p each for 1m shares.

Morgan Grenfell sold 6.18m BTR shares at about 120p, while Mercury Asset Management sold 1m at 121¾p each. Schroder said it had sold 8.7m BTR shares at either 120p or 125½p each.

Hard on the heels of the BTR-Siebe merger, the hunt was on for the next undervalued engineer likely to attract an offer. So it came as no real surprise that Weir Group, the engineering products and services company, entered the spotlight. It was the best performer in the FTSE 250 as it gained 20½ to 218½p as a tale went the rounds that a 300p a share bid was imminent. However, the company itself was not aware of any approach.

The stock stood at 305p earlier this year before falling to touch 165p. The group made a presentation to analysts on Monday that attracted little comment.

Atkins alarm

The prospect of technological consultancy WS Atkins buying the Bovis Group project and construction management division from P&O raised investor fears that Atkins shares might lose some of their premium.

WS Atkins shares are among the most highly-rated in the sector, standing at about 27 times this year's forecast earnings, and the acquisition of Bovis would stretch the financial resources of the company, which could turn to a rights issue for funding. Atkins said P&O was likely to retain a stake, prompting analysts to suggest it would find it difficult to purchase all of the Bovis division.

Analysts were talking of a £350m price tag on Bovis.

Geoff Allum, analyst at Henderson Crosthwaite, said: "There is a logic in WS Atkins increasing its size to spread the risk consultants of that sort are asked to take on, but it has always been difficult for Atkins to find a company with a reputation as good as its own. Any large acquisition was always likely to reduce the premium rating Atkins shares have enjoyed."

WS Atkins was the worst performer in the MidCap index, losing almost 9 per cent, or 51½ to 551p. P&O gained 14p in initial trading but closed down 7 at 733p.

Brokers' recommendations helped media group Pearson brush aside the collapse on Monday of its £512m deal to sell two publishing businesses to a US equity firm.

Pearson, owner of the Financial Times, yesterday received regulatory clearance to buy the educational publishing titles of Simon & Schuster from Viacom.

Dresdner Kleinwort Benson yesterday upgraded its recommendation on the stock from "hold" to "add" in the wake of the clearance. The broker said Pearson currently stood on 19.7 times 1999 earnings forecasts – a 12 per cent premium to the market. The group offered earnings growth of 15.5 per cent per annum for the next three years.

Morgan Stanley Dean Witter also favours the stock and yesterday raised its near-term price target from £10.26 to £11.80 as it reiterated its "outperform" stance.

In banks, institutional buying was said to be behind the advance Barclays. The shares put on 52 to £14.51 with some 9.4m having been dealt by the close.

A shortage of stock was reported in Schroders. The shares rose 60 to £11.95, the best performer in the FTSE 100.

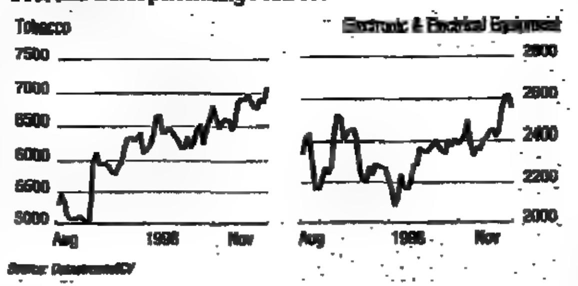
But fading bid hopes and general profit-taking saw Royal Bank of Scotland surrender 37 to 901p.

Norwich Union declined 17 to 443 on talk that the company might bid for Guardian Royal Exchange, which confirmed on Monday it was in talks with several parties that might lead to an offer for the group. Shares in the latter were 6½ lighter at 344p after Salomon Smith Barney was reported to have downgraded its stance on the stock to SH (hold-high risk) from (add-medium risk).

A television programme programme on Monday was said to have cast a shadow over leading food retailing stocks. J Sainsbury eased a penny to 532½p, while Asda Group fell 1½ to 158p. Safeway, the subject of a "sell" note from Charterhouse Tilney, ran back 11 to 300p. Two-way business in Tesco brought turnover of 13m as the shares eased ½ to 179p.

BAT was one of the better performers in the Footsie following the decision by US tobacco companies Philip Morris and RJR Nabisco to increase cigarette prices by 45 cents a packet. BAT gained almost 4 per cent, or 18 to 550p in brisk volume of some 9m traded. The price increase was said to have calmed investor fears that Philip Morris would continue with its price-cutting strategy in the US, and open the way for BAT's Brown and Williamson to announce a price rise.

Best and worst performing FTSE sectors



Source: Datastream/ICV

FT 30 INDEX

	Nov 24	Nov 23	Nov 20	Nov 19	Nov 18	Yr ago	*High	*Low
FT 30	3485.1	3531.1	3434.5	3368.2	3292.6	2145.7	4004.9	2790.6
Ord. div. yield	3.01	2.98	3.04	3.10	3.18	3.59	4.22	2.72
P/E ratio net	22.24	22.48	22.04	21.62	21.10	20.49	25.41	15.80
P/E ratio nil	22.15	22.39	21.95	21.53	21.01	20.21	25.19	15.71

FT 30 since compilation: high 4004.9 15/07/98, low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3531.1	3508.5	3497.1	3496.2	3494.2	3495.6	3488.0	3479.8	3547.4	3476.2

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STOCK MARKET TRADING DATA

	Nov 24	Nov 23	Nov 20	Nov 19	Nov 18	Yr ago
SEAQ bargains	79,412	81,355	77,292	63,937	93,638	44,299
Equity turnover (£m)†	-	2975.3	3347.6	3218.3	2653.0	2668.9
Equity bargains†	-	78,449	66,229	92,361	47,884	43,893
Shares traded (mil)†	-	799.8	915.1	891.3	782.7	699.3
Total market bargains§	-	n/a	77,937	82,476	58,443	-
Total turnover (£m)§	-	n/a	4168.0	3052.8	3365.2	-
Total shrs traded (mil)§	*1027.3	n/a	1079.5	1059.7	960.8	-
Tradepoint turnover (£m)	19.8	22.8	20.9	27.0	26.4	33.0
Tradepoint shrs traded(m)	9.5	11.2	9.4	12.3	8.9	12.9

†Excluding intra-market and overseas turnover §Not including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	854	Total Highs	63	Total contracts	62,010
Total Falls	981	Total Lows	64	Calls	30,089
Same	1,391			Puts	31,921

Nov 24 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	5926.0	5835.0	-49.0	5932.0	5795.0	24826	196730
Mar	5982.0	5886.0	-49.0	5982.0	5850.0	1795	20003
Jun	6007.6	5938.0	-49.0	6007.6	5953.0	250	10740

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	4920.0	4945.0	+25.0	4920.0	4920.0	2	8466

■ FTSE 100 INDEX OPTION (LIFFE) (*5797) £10 per full index point — Nov 24

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point — Nov 24

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible] * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt cap (£m)	1998 High	1998 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Nov 23	% chg on day	Nov 20	Year ago	Gross div yield %	Total return	52 week High	52 week Low
Gold Mines Index (24)	1121.91	-0.8	1127.45	1066.07	1.86	1134.32	1391.07	701.85
■ Regional indices								
Africa (6)	1208.13	-2.1	1233.32	1121.84	3.30	1217.54	1498.04	785.53
Australasia (8)	1290.63	-1.4	1309.42	1072.36	2.40	1396.08	1800.63	616.53
Americas (11)	1075.25	0.0	1075.32	1086.49	0.70	1076.33	1317.41	847.59

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FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Nov 24	Day's chge%	Nov 23	Nov 20	Year ago	Gross yld%	Net yld%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5798.3	-0.9	5848.4	5717.5	4803.5	2.77	2.38	1.98	22.78	135.08	2583.80
FTSE 250	4923.9	+0.5	4901.2	4843.0	4871.3	3.58	3.05	2.15	18.25	126.16	[illegible]
FTSE 250 ex Inv Tr	4940.3	+0.5	4920.9	4864.8	4872.1	3.73	3.16	2.22	15.19	138.98	2154.79
FTSE 350	2745.2	-0.6	2763.0	2705.8	2348.8	2.86	2.47	2.02	21.37	64.95	2480.46
FTSE 350 ex Inv Tr	2752.3	-0.7	2770.5	2712.8	2359.2	2.91	2.49	2.03	21.18	65.47	1275.65
FTSE 350 Higher Yield	2686.6	-1.0	2683.4	2613.5	2251.2	3.86	3.38	1.95	18.72	82.31	1058.69
FTSE 350 Lower Yield	2831.0	-0.3	2838.6	2794.1	2260.0	1.85	1.62	2.10	30.39	49.77	2072.42
FTSE SmallCap	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE SmallCap ex Inv Tr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE All-Share	2648.51	-0.6	2664.57	2611.55	[illegible]	2.95	2.51	2.01	21.02	63.10	2428.78
FTSE All-Share ex Inv Tr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ FTSE Actuaries Industry Sectors

	Nov 24	Day's chge%	Nov 23	Nov 20	Year ago	Gross yld%	Net yld%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(23)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
12 Extractive Industries(6)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
15 Oil, Integrated(3)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
16 Oil Exploration & Prod(11)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
20 GEN INDUSTRIALS(271)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
21 Construction(36)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
22 Building Matls & Merchs(28)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
23 Chemicals(25)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
24 Diversified Industrials(15)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25 Electronic & Elect Equip(35)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
26 Engineering(59)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
27 Engineering, Vehicles(11)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
28 Paper, Pckg & Printing(25)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
30 CONSUMER GOODS(93)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
32 Alcoholic Beverages(8)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
33 Food Producers(22)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
34 Household Goods & Texts(22)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
36 Health Care(18)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
37 Pharmaceuticals(19)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
38 Tobacco(2)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
40 SERVICES(239)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
41 Distributors(29)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
42 Leisure & Hotels(30)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
43 Media(39)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
44 Retailers, Food(13)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
45 Retailers, General(45)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
46 Telecommunications(11)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
47 Breweries, Pubs & Rest.(24)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
48 Support Services(55)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
49 Transport(23)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
60 UTILITIES(21)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
62 Electricity(9)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
64 Gas Distribution(2)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
68 Water(11)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
69 NON-FINANCIALS(653)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
70 FINANCIALS(108)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
71 Banks, Retail(12)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
73 Insurance(23)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
74 Life Assurance(6)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
77 Other Financial(29)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
79 Property(44)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
80 INVESTMENT TRUSTS(130)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
89 FTSE All-Share(842)	2648.51	-0.6	2664.57	2611.55	[illegible]	2.95	2.51	2.01	21.02	63.10	2428.78
FTSE All-Share ex Inv Tr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Information Technology	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE Fledgling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE Fledgling ex Inv Tr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE AIM	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ Hourly movements

	8.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	5852.0	5800.9	5781.5	5782.2	5804.4	5810.0	5802.2	5780.4	5861.7	5773.0
FTSE 250	4914.6	4926.2	4924.5	4929.8	4929.0	4925.9	4926.3	4926.5	4931.9	4914.1
FTSE 350	2760.0	2757.7	2748.6	2749.9	2760.9	2750.0	2747.9	2729.4	2776.0	2726.4
FTSE SmallCap	2066.83	2067.33	2065.73	2064.57	2063.74	2063.77	2064.05	2063.27	2067.33	2063.29
FTSE All-Share	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

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FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks yesterday

	Vol 000's	Closing price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]

Based on trading volume for the FTSE 100 component companies and volumes yesterday until 4.30pm. † Indicates a FTSE 100 index constituent. [illegible]

هكذا من الاصل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

PACIFIC

AFRICA

AMERICAS

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY NOVEMBER 23 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY NOVEMBER 20 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (75)	203.00	1.3	182.12	155.25	179.88	210.52	1.6	3.55	200.49	179.41	[illegible]	176.01	207.14	219.96	153.88	202.88
Austria (22)	184.96	0.3	165.92	141.45	163.09	163.78	1.3	2.13	184.34	164.96	140.12	161.83	161.73	253.73	166.45	191.82
Belgium (22)	373.64	-0.8	335.20	285.76	331.08	323.98	0.3	2.06	375.98	[illegible]	285.75	330.04	322.95	398.52	[illegible]	253.86
Brazil (32)	166.96	0.6	149.78	127.69	147.94	307.07	0.8	2.42	165.91	148.47	[illegible]	145.65	364.87	269.34	102.68	221.78
Canada (119)	202.87	2.5	[illegible]	[illegible]	179.77	227.28	2.5	1.74	[illegible]	177.22	150.53	173.86	221.76	248.78	158.94	215.16
Denmark (34)	460.72	0.5	413.32	352.36	408.24	406.04	1.4	1.72	458.43	410.25	[illegible]	402.47	400.29	[illegible]	415.82	422.47
Finland (26)	482.37	1.2	432.74	368.91	427.49	524.79	2.2	1.74	476.46	426.38	[illegible]	418.30	513.45	506.46	267.59	317.75
France (75)	313.88	0.3	281.57	240.04	278.11	281.41	1.2	2.22	312.93	[illegible]	237.96	274.73	277.95	345.18	225.24	232.71
Germany (55)	274.61	1.2	246.35	210.02	243.33	243.53	2.1	1.33	271.33	242.81	206.24	238.21	[illegible]	325.67	216.42	221.89
Greece (35)	306.44	-0.6	274.91	234.36	271.53	628.05	0.4	1.38	308.25	275.84	234.30	270.62	625.44	333.20	211.47	–
Hong Kong, China (67)	323.76	1.9	290.46	247.61	286.88	321.86	1.9	4.07	317.78	284.37	241.55	278.99	315.86	389.07	196.84	356.49
Indonesia (26)	55.45	7.2	49.74	42.41	49.13	255.96	7.2	1.24	51.70	46.27	39.30	45.39	238.67	100.77	19.04	95.71
Ireland (16)	504.88	1.3	452.93	386.11	447.37	488.02	2.3	1.98	498.42	446.03	378.85	437.57	477.14	560.44	377.17	378.57
Italy (53)	163.51	2.0	146.69	125.05	144.89	206.07	3.0	1.35	160.28	143.44	121.83	140.72	200.12	184.49	108.44	109.76
Japan (446)	98.09	-0.6	88.00	75.02	86.92	75.02	0.0	1.00	98.69	88.32	75.02	86.65	75.02	109.73	76.83	105.32
Mexico (29)	1192.36	3.3	1069.68	911.91	1056.54	12886.11	3.1	1.98	1154.64	1033.27	877.66	1013.70	12498.02	1803.07	787.15	1609.67
Netherlands (37)	496.19	0.9	445.14	379.48	439.67	435.18	1.9	2.14	491.54	439.97	373.71	431.63	427.27	562.38	391.03	417.00
New Zealand (19)	58.02	-0.4	52.05	44.37	51.41	57.80	0.3	5.05	58.26	52.14	44.29	51.15	57.64	83.14	45.68	83.14
Norway (38)	231.19	1.5	207.41	176.82	204.86	235.14	1.9	2.56	227.79	203.84	173.14	199.98	230.71	357.71	181.86	337.67
Philippines (22)	85.08	3.7	76.32	65.06	75.38	168.32	4.1	0.92	82.01	73.39	62.34	72.00	161.65	108.98	42.48	88.36
Portugal (18)	250.18	-1.6	224.44	191.34	221.69	299.51	-0.6	1.12	254.32	227.58	193.31	223.27	301.44	299.39	194.13	–
Singapore (41)	209.33	0.3	187.79	160.09	185.48	157.86	0.8	2.00	208.67	186.73	158.61	183.19	155.65	264.82	102.45	229.56
South Africa (39)	213.47	0.0	191.51	163.26	189.16	265.27	1.1	3.53	213.42	190.99	162.22	187.37	262.50	346.20	151.55	274.24
Spain (30)	373.16	-0.8	334.76	285.39	330.65	409.83	0.1	1.83	376.30	336.74	286.03	330.36	409.28	417.73	258.00	262.81
Sweden (46)	495.13	1.3	444.18	378.67	438.73	593.98	1.5	1.97	488.83	437.45	371.57	429.16	584.98	628.19	379.18	496.88
Switzerland (30)	414.26	1.5	371.63	316.82	367.07	360.84	2.5	1.18	408.15	365.25	310.24	358.33	351.88	439.48	307.73	321.80
Thailand (35)	26.43	5.9	23.71	20.22	23.42	37.09	6.1	2.55	24.95	22.33	18.97	21.91	34.96	33.84	8.15	27.59
United Kingdom (209)	374.12	1.9	335.63	286.13	331.51	335.63	2.2	2.93	367.04	328.46	278.99	322.23	328.46	401.84	307.96	330.77
USA (619)	486.79	2.2	436.70	372.29	431.34	486.79	2.2	1.34	476.51	426.42	362.20	418.34	476.51	486.79	378.74	391.65
Americas (799)	433.77	2.2	389.14	331.75	384.36	367.95	2.2	1.36	424.59	379.96	322.74	372.76	360.15	437.03	343.40	355.67
Europe (737)	348.35	1.2	312.51	266.41	308.67	319.84	1.9	2.11	344.14	307.97	261.59	302.13	315.79	386.24	278.56	254.88
Eurobloc (346)	100.04	[illegible]	89.75	76.51	88.64	95.95	1.7	1.79	99.29	88.86	75.48	87.17	94.35	113.26	81.53	–
Nordic (146)	459.14	1.2	411.90	351.15	406.84	466.56	1.7	1.92	453.00	406.18	345.01	398.49	458.78	[illegible]	360.04	433.13
Pacific Basin (730)	106.66	-0.2	95.69	81.57	94.51	83.65	0.4	1.56	106.83	95.60	81.20	93.79	83.34	119.48	82.83	115.31
Euro-Pacific (1467)	207.11	0.8	185.80	158.39	183.51	172.25	1.5	1.94	205.43	183.84	156.16	180.36	169.76	220.19	166.00	186.05
North America (738)	467.70	2.2	419.57	357.69	414.42	468.97	2.2	1.35	457.78	409.68	347.96	401.90	459.02	469.20	367.38	380.49
Europe Ex. UK (529)	323.94	0.9	290.61	247.75	287.04	302.51	1.8	1.70	321.11	287.36	244.08	281.92	297.15	368.32	249.34	254.15
Europe Ex. Eurobloc (381)	95.84	1.7	85.98	73.30	84.92	95.50	2.2	2.44	94.22	84.32	71.62	82.72	93.47	103.83	77.40	–
Europe Ex. UK Ex. Eurobloc (183)	96.95	1.3	86.97	74.15	85.91	94.26	2.1	1.45	95.71	85.65	72.75	84.03	92.28	109.21	75.16	–
Pacific Ex. Japan (284)	187.10	1.6	167.85	143.09	165.79	189.00	1.8	3.62	184.20	164.84	140.01	161.72	185.64	217.77	128.26	207.40
World Ex. Eurobloc (1959)	101.90	1.7	91.42	77.93	90.30	100.99	1.9	1.60	100.19	89.66	76.16	87.96	99.15	103.16	83.09	–
World Ex. US (1686)	207.24	0.9	185.92	158.49	183.63	177.57	1.5	1.95	205.42	183.83	156.14	180.34	174.93	221.91	165.95	189.65
World Ex. UK (2097)	290.04	1.5	260.19	221.82	257.00	260.19	1.8	1.48	285.72	255.69	217.19	250.84	256.56	298.02	234.66	247.43
World Ex. Japan (1859)	396.39	1.8	355.61	303.16	351.24	388.60	2.1	1.70	389.36	348.43	295.96	341.83	378.77	411.23	318.78	329.52
The World Index (2305)	297.26	1.6	266.67	227.34	263.40	267.14	1.9	1.83	292.71	261.94	222.49	256.98	262.29	306.56	242.08	254.51

Emerging markets

IFC investable indices

4 pm close November 24

NEW YORK STOCK EXCHANGE PRICES

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

Price data supplied by Cost, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. ‡ Dealings suspended.

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Sector		SETT 24-11-1998	Close 24-11-1998	Previous 23-11-1998	Change on day	% Change	1998 HIGH	1998 LOW
Financials	USD	2014.37	2074.92	2066.30	+7.63	+0.38	2451.60	1445.56
IN-FIN	DEM	2477.99	2470.70	2465.67	+4.03	+0.16	3260.15	1950.17
Non-durable goods	USD	1897.22	1891.14	1896.23	-8.88	-0.60	1998.23	1234.52
IN-GOODS	DEM	2161.07	2151.58	2156.11	-4.53	-0.27	2195.63	1528.65
Oils	USD	1324.47	1325.84	1336.83	-10.95	-0.81	1633.56	1132.90
IN-OIL	DEM	1580.38	1573.23	1595.65	-16.32	-1.02	2027.16	1381.56
Pharma-chemicals	USD	1482.86	1494.26	1490.85	+3.39	+0.22	1680.68	1395.35
IN-PHARMA	DEM	1782.37	1780.97	1778.69	+0.38	+0.02	2115.51	1445.92
Telecoms	USD	2336.81	2343.26	2332.36	+10.92	+0.46	2548.47	1495.47
IN-TELCO	DEM	2788.46	2781.45	2784.16	+7.29	+0.26	3380.86	1852.94

Further information about the INSECTS and constituents are available for download on our web-site HTTP://WWW.EURO-INSECTS.COM and further information about EuroBench is on HTTP://WWW.EUROBENCH.COM. A free daily email service can also be subscribed to on the web. For hard copy information please call London (+ 44 171 336 7888) or Brussels (+32 2 509 94 60).

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THE NASDAQ-AMEX

صكتا من الاجل

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Nov 23	Nov 20	Nov 19	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	9374.27	9159.55	9056.05	9374.27 (23/11)	7539.07 (31/8)	9374.27 (23/11/98)	41.22 (8/7/32)
Home Bonds	106.33	106.38	106.17	107.02 (5/10)	104.42 (11/5)	107.02 (5/10/98)	54.99 (1/10/81)
Transport	3013.35	2974.92	2959.36	3686.02 (16/4)	2345.00 (8/10)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	312.03	310.14	308.34	320.51 (8/10)	282.66 (9/1)	320.51 (8/10/98)	16.53 (8/7/32)

DJ Ind. Day's High 9425.77 (9215.93) Low 9137.92 (9048.32) (Theoretical) Day's High 9374.27 (9161.36) Low 9159.29 (9058.62) (Actual)

Standard and Poors	Nov 23	Nov 20	Nov 19	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1188.21	1163.55	1152.61	1188.21 (23/11)	927.69 (9/1)	1188.21 (23/11/98)	4.40 (1/6/32)
Industrials	1414.79	1388.81	1378.82	1414.79 (23/11)	1077.40 (9/1)	1414.79 (23/11/98)	3.52 (30/6/32)
Financial	131.73	127.13	125.23	147.88 (14/7)	95.80 (8/10)	147.88 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	582.25	572.08	566.75	600.75 (17/7)	477.20 (8/10)	600.75 (17/7/98)	4.64 (25/4/42)
Amex Comp	672.00	675.01	673.22	753.87 (22/4)	563.75 (8/10)	753.87 (22/4/98)	524.20 (16/7/98)
NASDAQ Cmp	1977.42	1928.21	1919.68	2014.25 (20/7)	1419.12 (8/10)	2014.25 (20/7/98)	54.87 (3/10/74)
Russell 2000	398.15	394.29	394.37	491.41 (21/4)	310.28 (8/10)	491.41 (21/4/98)	123.36 (7/12/93)

RATIOS

	Nov 20	Nov 13	Nov 6	Year ago
Dow Jones Ind. Div. Yield	1.66	1.69	1.66	1.73
	Nov 18	Nov 11	Nov 4	Year ago
S & P Ind. Div. yield	1.25	1.29	1.30	1.50
S & P Ind. P/E ratio	33.53	32.98	32.70	25.38

US DATA

MARKET ACTIVITY

[illegible]

NYSE TRADING ACTIVITY

[illegible]

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]

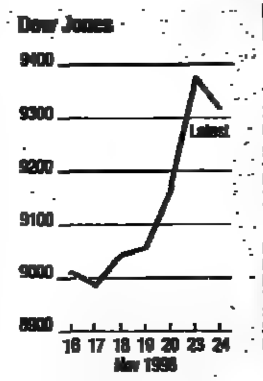
NASDAQ TRADING ACTIVITY

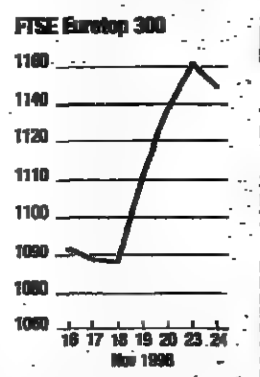
ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Netscp	30,203,900	41⅞	+2⅝
Micsft	27,638,200	119⅛	+5⅞
DellCmp	24,291,900	65⅞	+1½
Intel	14,205,100	113⅞	+1⅜
Novell	13,901,900	18	+1⅛
WorldCm	12,523,200	58⅛	+1⅛
Yahoo	11,461,100	221¼	+39⅛
CiscoSys	11,455,800	76⅛	+1⅛
Amz.com	11,253,100	218	+37⅝
EghtdealG	10,240,100	27⅞	+⅞

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Circon	14⅝	+3⅞	+35.7
eBay Inc	151	+46	+31.3
Onlgeon	16⅛	+25⅛	+85.8
InspCrte	11	+1⅞	+21.4
Downs			
Excess	11⅞	-1⅞	-11.0
[illegible]	21¾	-3⅝	-18.2
OptCtrlCp	13¾	-1½	-10.1
Amemco	24⅜	-2⅜	-8.2





JAPAN

[illegible]

TOKYO TRADING ACTIVITY

ACTIVE STOCKS

BIGGEST MOVERS

[illegible]

GERMANY

[illegible]

FRANKFURT TRADING ACTIVITY

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Dt Bk	1,255,410	103.8	-0.85
DaimCh	680,466	155.8	-2.4
Bayer	650,440	70.4	-1.3
BASF	638,337	66.7	+0.05
Dresdbk	630,170	88.3	-3.5
Commbk	581,977	55.4	-0.7
Lufthan	506,330	35.5	-1.8
Dt Tel	484,539	48.2	-1.7
H'cht	438,791	70.4	-0.8
Siemns	413,182	117.8	+0.8

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
[illegible]	40	+2.7	+7.2
Sixtvag	115	[illegible]	+4.5
Deutz	10.6	+0.7	+4.3
Askleilg	260	+11	[illegible]
Downs			
[illegible]	81	-6.5	-7.4
Dt Bk	103.8	-6.85	[illegible]
Metrgl.	88.5	-3.55	[illegible]
WellaPf	1580	-80	-4.8

FRANCE

[illegible]

PARIS TRADING ACTIVITY

ACTIVE STOCKS

BIGGEST MOVERS

[illegible]

UK

[illegible]

LONDON TRADING ACTIVITY

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Billiton	48,080,970	125	+14
Siebe	31,217,340	236	-8
BTR	28,126,010	129	-4
Enterprise Oil	18,408,280	358	-1
Tesco	13,027,380	179	-¼
Centrica	12,972,840	121½	-¼
BG	12,226,300	429½	+4½
BP	12,131,010	939½	-5
Ladbroke	11,807,620	227½	+6½
BAT	10,723,820	545	+13

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Reunion	52½	+16½	+45.8
Parkland	31½	+9	+40
Danka Bus	80½	+12	[illegible]
CityCourant	35	+7½	+27.3
Downs			
Redbew	¾	-½	-25.0
Prop Asset	3	-½	-14.3
Sterling Ind	225	-28	-11.4
Whitford	91½	-11	-10.7

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	1193.60	1180.50	-3.60	1198.00	1189.10	101,963	401,258
Mar	1203.50	1202.50	-3.10	1203.50	1201.00	3,659	22,927
Nikkei 225	**Open**	**Sett price**	**Change**	**High**	**Low**	**Est. vol.**	**Open int.**
Dec	15060.0	15130.0	+330.0	15190.0	14910.0	26,946	193,380
Mar	15060.0	15120.0	+360.0	15130.0	14900.0	1,713	8,933

Open interest figures for previous day

CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Nov	3909.0	3940.0	-31.0	3937.0	3836.0	112,637	179,018
Dec	3935.0	3949.0	-31.5	3941.5	3846.0	34,598	88,400
DAX							
Dec	5134.0	4985.5	-81.5	5135.0	4961.0	23,344	77,918
Mar	5172.0	5007.0	-76.5	5172.0	5004.0	295	4,031

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Nov	695.00	678.00	-10.50	698.00	677.50	84,132	146,963
Dec	696.50	681.25	-10.50	700.00	681.50	47,993	105,873
SOFFEX							
Dec	7411.0	7170.0	-163.0	7459.0	7153.0	33,949	159,706
Mar	7448.0	7169.0	-140.0	7448.0	7209.0	411	5,033

WORLD MARKETS AT A GLANCE

Country	Index	Nov 24	Nov 23	Nov 20	1998 High	1998 Low	Yield	P/E
Hungary	Bux	6842.04	6134.70	5972.01	[illegible] 23/4	3775.62 21/8	na	na

Extend three-day winning streak with modest losses.

Country	Index	Nov 24	Nov 23	Nov 20	1998 High	1998 Low	Yield	P/E
India	BSE Sens.	2903.58	2919.57	2941.38	4088.98 21/4	2764.10 20/10		
	Crisil 500	576.82	580.12	587.83	[illegible] 21/4	557.80 20/10	na	na
Portugal	BVL 30	4738.43	4814.13	4846.70	6176.88 23/4	[illegible] 2/10	2.07	28.60
	PSI 20	10658.57	11037.10	11109.67	14592.88 22/4	8414.51 2/10		
Russia	RTS	70.66	70.12	68.36	411.61 5/1	38.85 5/10	na	na

Ended lower as institutions unwound positions ahead of projected declines.

[illegible]

The remaining World Markets at a Glance entries (Argentina, Australia, Austria, Belgium, Brazil, Canada, Chile, China, Colombia, Czech Republic, Denmark, Egypt, Finland, France, Germany, Greece, Hong Kong, Indonesia, Ireland, Israel, Italy, Japan, Jordan, Luxembourg, Malaysia, Mexico, Morocco, Netherlands, New Zealand, Nigeria, Norway, Pakistan, Peru, Philippines, Poland, Singapore, Slovakia, South Africa, South Korea, Spain, Sri Lanka, Sweden, Switzerland, Taiwan, Thailand, Turkey, Venezuela, Zimbabwe, World, Cross-border): [illegible]

[illegible]

THE NASDAQ-AMEX MARKET GROUP

4 pm close November 24

[illegible]

THE NASDAQ-AMEX MARKET GROUP

[illegible]

AMEX

4 pm close November 24

[illegible]

EASDAQ

[illegible]

STOCK MARKETS

Tokyo rebounds as global outlook lightens

WORLD OVERVIEW

Asian stocks powered ahead yesterday as investors responded to Monday's buoyant performances by Wall Street and European bourses, *writes Michael Peel.*

Tokyo returned from a public holiday to post a three-month high and most other markets in the region made strong gains, with only Bangkok and Jakarta missing out.

But Europe and the US paused after Monday's surge when the Dow Jones Industrial Average reached an all-time high. Frankfurt, Paris and Amsterdam edged lower, while the Dow was down slightly at midsession.

Ashok Shah, head of emerging market equities for Old Mutual, the South African life assurer and asset manager, said that exportled economies such as Japan, South Korea and Taiwan had benefited from a perception that the likelihood of a global recession had receded.

"Japan depends on exports so it celebrates when the global economic outlook is brighter," he said.

Jakarta and Bangkok had suffered from profit taking after a recent period of gains. Jakarta ended down 1.2 per cent while Bangkok shed 1.7 per cent.

Neil Williams, a global strategist at Goldman Sachs, said the strong performance of markets in the Asia-Pacific region showed many fund managers had reduced the expected risk they built into valuations.

"The meltdown scenario has disappeared and accordingly we are seeing a good improvement in risk premium," he said. "A lot of the downside has been removed."

Analysts said the subdued performances in Europe and the US reflected investors' desire to consolidate recent gains.

While some Europe-listed financial stocks continued to prosper following the talks between Deutsche Bank and Bankers Trust, others fell as profit-takers moved in.

Peter Sullivan, a European equity strategist at Goldman Sachs, said Europe's solidity after Monday's jump by Wall Street showed investors were taking a sensible approach to valuing stocks.

"We are in a pretty good position," said Mr Sullivan. "We are looking at a business case where you have got no recession, very good profit growth and very good interest rate cuts."

But he added that the "positive economic backdrop" had to be balanced against a risk some companies might struggle to match profit forecasts.

Nevertheless, Goldman estimated that European markets might rise 5 per cent in the next 12 months. "There could be quite a few years of growth to come."

US shares slip back from record highs

AMERICAS

US shares pulled back after Monday's record-setting session as analysts adjusted stock ratings and merger activity continued in the paper and retail sectors, *writes John Labate in New York.*

By early afternoon the Dow Jones Industrial Average was down 43.51 to 9,330.76. The broader Standard & Poor's 500 index fell 2.67 to 1,185.54.

The Nasdaq composite index, which is weighted in high technology company shares, fell 1.67 to 1,975.76. Small-cap shares slipped as well, sending the Russell 2000 index down 1.23 to 396.92.

Many believed the market would resume its upward progress despite the day's mild but broad sell-off. "The pullback has no conviction," said Hugh Johnson, chief *investment officer at First* Albany.

The rally on Monday was fuelled by a spate of mergers and takeovers in the market. "Every time there's an acquisition it implies the *supply of stocks you can buy* will be reduced," said Mr Johnson.

"Now that includes Bankers Trust, AMP and Netscape, which have high liquidity and market caps."

Merger-related buying sent paper stocks soaring on news of a $6.6bn merger between International Paper and Union Camp.

Union Camp soared 36 per cent or $17⅞ to $66⅝ while *International Paper fell 8%* to $45⅞.

Other paper stocks made impressive gains, including Smurfit-Stone, which rose more than 10 per cent to $13⅞ after it announced cuts in jobs and capacity.

In the Dow, American Express declined $3⅞ to $105 and Johnson & Johnson dropped $2⅞ to $85⅛.

In the retail sector J.C. Penney fell $2⅛ to $52⅞ after it announced it would acquire a drug store chain.

Chase Manhattan rose $1⅝ to $66 after analysts at Oppenheimer rated the stock a "buy". *Morgan Stanley* shares were up $⅜ to $74 after Salomon Smith Barney raised its estimate of 1999 earnings.

US Treasuries pushed higher after the release of *strong reports on gross* domestic product and consumer confidence. The benchmark long bond was ⅝ higher at 100⅝, yielding 5.215 per cent.

TORONTO was lower at *midsession as investors took* profits after the strong gains of recent sessions. The TSE-300 composite index was 54.62 weaker at 6,608.30 in volume of 33m shares.

Bank of Montreal lost 50 cents to C$68.80 *in spite of* reporting first quarter earnings that topped expectations. Royal Bank of Canada lost C$2.30 to C$78.30.

SAO PAULO turned back as profit-taking set in after *the 3.8 per cent advance over* the previous three sessions. By midday the Bovespa index was 242 or 2.8 per cent lower at 8,394.

Some analysts were, however, upbeat on the outlook *saying that Monday's resignations* by two ministers had resolved a pressing political problem.

The communications minister and the foreign trade secretary quit amid *allegations of favouritism* during the privatisation auction of Telebras.

MEXICO CITY extended an opening slide at midsession as the weak opening on Wall Street provided the cue for profit-taking. The *IPC* index was 74.04 weaker at 4,057.41.

Bourses stung by profit-taking

EUROPE

French equities managed to sidestep most of the profit-taking that afflicted European bourses yesterday with **PARIS** easing modestly to trim the CAC 40 index by 6.43 to 3,839.38.

Air Liquide jumped FFr54 to FFr998 after announcing plans for what brokers described as a strategically interesting takeover.

Valeo, a dull market lately, rose FFr28 or 6.1 per cent to FFr484, helped by a *positive note from a local* broker, Ferri.

Carrefour dipped FFr84 to FFr4,256, but most heavyweights stayed firm. Renault put on FFr7 at FFr257 and from French group Rhône-Poulenc was in Germany for talks and a merger plan would be announced before the end of next week. *Neither company would comment.*

The FTSE Eurotop 300 index fell 12.64 or 1.09 per cent to 1,149.43. See Euro Prices page.

France Telecom FFr1.10 at FFr421.10. Banks mostly lost ground. BNP came off FFr11 at FFr418 and Société Générale FFr20 at FFr901.

ZURICH dropped 2.2 per cent as profit-taking and a lower start on Wall Street put pressure on prices. The SMI index fell 164 to 7,170.3.

Financials were mostly lower, led down by a SFr13 or 2.7 per cent tumble to SFr430 in UBS.

Nestlé dropped SFr67 to SFr3,123 as the market prepared for 10-month sales *figures from the food giant* today. Analysts have been forecasting a 5 per cent rise in sales.

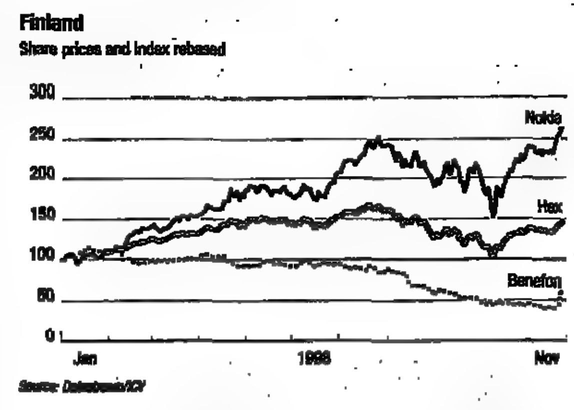
Alusuisse, almost 12 per cent higher since the start of last week when Germany's *Viag confirmed the two companies* were in co-operation talks, fell SFr59 to SFr1,767 as profit-taking set in.

Against the trend, the recently underperforming Holderbank put on SFr30 to SFr1,610, benefiting from a number of recommendations.

FRANKFURT pulled back as Monday's bank merger-inspired rally ran out of steam. The Xetra Dax index finished 69.97 lower at 4,954.54.

Financials fell prey to profit-taking after the previous session's excitement. Deutsche Bank lost DM4.75 to DM104.60 as further details of its planned takeover of US Bankers Trust emerged. Dresdner Bank lost DM3.10 to DM68. Commerzbank fell 64 pfg to DM55.47 and HypoVereinsbank dropped DM6.80 to DM134.

Hoechst slipped DM1.14 to *DM78.36* amid press reports that a top management team



short of the year-high of FM73 reached in February.

Nokia put on FM9.40 to FM518.40 after hitting an all-time high of FM526 in early trade.

COPENHAGEN saw a fall in textile service and industrial distribution group Sophus Berendsen after the company downgraded its 1998 earnings forecast.

The shares tumbled DKr24.50 or 12 per cent to DKr207 after hitting an intraday and 11-month low of DKr201.60. The KFX index finished 2.68 weaker at 202.91.

MADRID edged higher as financial stocks continued to perform strongly. The Ibex-35 index of leading shares closed up 37.3 at 9,479.2.

Several banks built on Monday's gains. BBV rose 3.0 per cent, Santander put on 1.3 per cent and Argentaria finished 2.1 per cent higher.

Telefónica, the telecommunications group, recovered some of the Pta130 shed on Monday on fears of a price war in its sector. It finished Pta50 or 0.7 per cent higher at Pta6,780.

MILAN moved down after recent gains. The Mibtel index closed down 302 or 1.4 per cent at 21,850. The bourse had gained 6.6 per cent in the previous three days' trading. Telecom Italia ended L275 or 1.3 per cent lower at L13,607.

Alitalia, the airline, bucked the downward trend with a rise of L278 or 4.9 per cent to L5,909. Dealers said investors were looking forward to the announcement of details of an agreement between the company and KLM, the Dutch airline.

LISBON was dragged down by a sharp fall in utility Electricidade de Portugal on concerns that 1999 tariff cuts could be greater than expected. The shares lost Es222 to Es3,652.

The PSI20 index lost 177.48 to 10,859.67, also hurt by a Es229 fall in Portugal Telecom to Es7,400 on worries that the country's dominant telecommunications operator might raise capital next year to cut its debt.

AMSTERDAM, up more than 9 per cent in six straight sessions, slipped with the AEX index losing 14.34 at 1,116.51.

Electronic group Philips suffered profit-taking, falling Fl 5.40 at Fl 129.10 and Ahold, the retail leader, lost ground on the back of disappointing third-quarter figures, down Fl 2.40 at Fl 66.50.

Publisher Wolters Kluwer fell Fl 14.00 to Fl 388 following a downgrade at Morgan Stanley Dean Witter.

KLM was an exciting feature ahead of Friday when details of the airline's alliance with Alitalia are to be unveiled. The shares surged Fl 2.80 to Fl 56.50 for a two-day gain of more than 9 per cent.

KPN, weak lately, rallied 40 cents to Fl 81.90 on the *news tariff cuts imposed by* telecoms industry watchdog will be lower than expected.

Among financials, ING was easier in advance of tomorrow's third-quarter statement, slipping Fl 2.90 to Fl 112.

HELSINKI was an outperformer as strong gains were recorded by the telecommunications equipment manufacturers and forestries. The Hex index closed with a rise of 31.37 at 4,846.82.

Mobile phone maker Benefon shot up for the second straight day ahead of a phone launch today.

Some domestic investors were said to be optimistic the phone could pull the loss-making group out of the red, but analysts remained sceptical about its future in an industry dominated by Nokia.

Benefon, up 18.5 per cent on Monday, put on FM5.60 or 18.4 per cent to FM36.10, but

Written and edited by Michael Morgan, Jeffrey Brown and Peter Hall

Johannesburg loses gains

SOUTH AFRICA

Shares in Johannesburg reversed early gains to close with the all share index off 55.3 at 5,770 as investor worries about high interest rates reasserted themselves in the wake of the latest trade data.

Industrials lost 1.7 per cent to 6,526.1 and financials 0.7 per cent at 9,090.5. Golds tracked a steadier session for bullion, adding 1.6 per cent to 1,050.5. Anglo American shed R1.40 to R180.

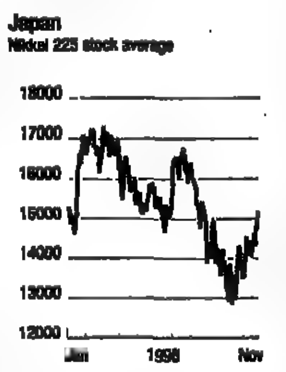
Nikkei hits three-month peak

ASIA PACIFIC

A surge of optimism about the Japanese and US economies sent the Nikkei soaring to its highest levels in three months yesterday, *writes Alexandra Harney.*

The Nikkei 225 average closed up 381.7 points or 2.6 per cent at its high for the day of 15,164.64, after a low of 14,904.20.

Investors were cheered by advances in the US stock market and indications that the Japanese government may adopt more effective means of addressing problems in the financial sector.



Every index of market activity showed gains. The Topix index of first-section stocks jumped 24.87 or 2.2 per cent to 1,115.61. The Nikkei 300 index improved 5.61 or 2.5 per cent to 232.26.

Electricity and gas stocks were the only sectors not to post gains. Securities stocks surged 6.3 per cent and banks 2.1 per cent with investors sticking to blue-chips and financial stocks.

The Bank of Tokyo-Mitsubishi, the only city bank not expected to apply to the government for additional funding, led the market in volume to close up Y72 at Y1,324. Nikko Securities gained Y26 to Y401 and Nomura Securities Y54 to Y1,184.

Analysts said the gains in bank and financial sector shares reflected optimism about a government plan to use public funds to buy real estate held by troubled financial groups.

Nissan Motor, Japan's second-largest car maker, jumped Y39 to Y420. Nissan's stock has rebounded in the last month after hitting a year-low of Y290 in late October following its warning of heavy losses this year.

Toyota, the leading car maker, gained Y70 to Y3,260 after last week announcing record first-half profits despite the downturn in the domestic market. Honda, heavily dependent on the US market, rose *Y180 to Y4,780.*

Hitachi, the leading electronics group, was up Y79 to Y790, and rival Toshiba gained Y20 to Y697.

Trading volume was heavy at 580m shares. Advancing issues outpaced declining shares, 968 to 214, with 125 unchanged. In Osaka, the OSE index gained 382 to 15,542 on the back of gains in the US market.

HONG KONG closed at a seven-month high as the Hang Seng index gained 337.18 or 3.2 per cent to 10,851.71 in turnover that picked up to a hefty HK$11.6bn.

Index heavyweight HSBC, a recent underperformer, climbed HK$3.50 to HK$201, extending its rise over two sessions to 7.8 per cent.

Smaller banking stocks also fared well, fuelled by hopes of further interest rate cuts and talk of mergers in the sector, brokers said. Wing Hang Bank jumped HK$3.05 to HK$23.50 and Dao Heng Bank HK$2.55 to HK$23.90. Wing Lung Bank jumped HK$2 to HK$30.30.

KUALA LUMPUR was pulled higher by by speculative buying of stocks linked to businessman Tajudin Ramli and the gaming sector. The composite index gained 12.49 or 2.6 per cent to 489.66.

Telecommunications stock Technology Resources gained *24 cents to M$2* and Malaysia Airlines' holding company Naluri picked up 10 cents to 92 cents in heavy trade. Demand for both stocks stemmed from hopes that Tajudin, who controls both companies, might receive government help with his debts.

MANILA continued to gain ground as a cut in interest rates kept sentiment upbeat. The composite index ended 38.99 or 2 per cent higher at 1,961.25, a 24-week peak and a gain of almost 20 per cent over the past ten trading sessions.

PLDT, a strong market performer recently on rumours of a share stake changing hands, came off 30 centavos to 1,055 pesos. Shortly after the close, it was announced that 10m PLDT shares had passed through the market in a block trade at 1,035 pesos.

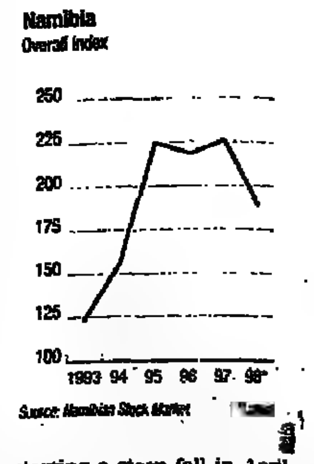
SINGAPORE pushed higher on the back of another strong day for electronics shares, thanks largely to the overnight strength for Wall Street's technology sectors.

The local electronics index gained nearly 5 per cent with talk of strong pre-Christmas trade for PC-related products. Sembcorp Industries was the most actively traded stock, rising 18 cents to S$1.99 in 33m *shares traded.* The Straits Times index ended up 35.96 or 2.6 per cent at 1,412.90.

EMERGING MARKET FOCUS

Namibia gains outside interest

Namibia's stock exchange is one of the most tranquil markets despite the turmoil that has swept through emerging economies.



Staffed by six, its one-room office looks on to a pizza restaurant in a leafy courtyard in central Windhoek, the capital of a vast but sparsely populated country of desert.

The NSX has grown rapidly since its establishment in 1992 – two years after Namibian independence – and is beginning to interest foreign investors as its market capitalisation and turnover increase.

On November 9, the NSX became *the first of South* Africa's neighbouring stock exchanges to link up with the Johannesburg stock exchange electronic trading system known as Jet (Johannesburg Equity Trading).

Namibian institutions, which must invest 35 per cent of their funds in local assets, still dominate trading in the 40 stocks listed.

But more than 98 per cent of the N$150bn in capitalisation that makes the NSX the second-largest market in Africa is accounted for by secondary listings of big South African groups such as De Beers, the diamond company, and FirstRand, the financial services group. With turnover of about N$1bn annually, the exchange is the continent's fourth busiest.

Local companies involved in fishing, diamond-mining and financial services are starting to make their presence felt. Namibia Breweries was the first local group to attract specialist foreign fund managers.

"It was quite a challenge the first time someone decided to sell US$1m of shares," says Tom Minney, NSX general manager.

The NSX is closely linked with the South African market, and the overall index rose sharply at the beginning of this year before starting a steep fall in April as international investors shunned emerging markets. By this week, it had recovered to 169, compared with 226 at the end of last year.

The local index of the 15 companies that are either Namibian-owned or have most of their interests in the country was less volatile.

But the index took a knock after the link-up with Johannesburg because it is now calculated on the "ruling price" of stocks (based on what people are prepared to bid in the absence of a trade) rather than the "last-traded price". The local index has fallen to 106, from 164 at the end of 1997.

The gloom is unlikely to last. Next week Sanlam, the South African life assurer being demutualised, will list in Johannesburg and Windhoek. That will add 56,000 Namibian shareholders to the 10,000 or so who hold stocks today.

"Half the working population gets free shares – it's quite an opportunity in terms of increasing the share-owning culture," says Mr Minney. "Initially people were full of doubts. But the stock exchange is proving itself. The main aim is to raise capital for local companies, and local entrepreneurs are starting to sit up and take notice."

Victor Mallet

Revolution starts long haul to prosperity

Building a modern state, say **Stefan Wagstyl** and **Matej Vipotnik**, is proving less glamorous but equally as challenging as throwing off the Soviet yoke

Photos: Elta/AP Montage: Gary Cummins

Lithuania's dramatic escape from the grip of the Soviet Union in the early 1990s made international headlines when scenes of crowds confronting Soviet troops were beamed around the world. The protests from provincial Vilnius set alarm bells ringing in Moscow and hastened the end both of Mikhail Gorbachev and of Soviet Communism.

Today, the challenges the country faces are less dramatic but require more sustained effort. If it is to live up to the heady expectations of 1990-91, Lithuania must now overcome the impact of another threat from Russia – the economic crisis. And it must continue to develop a market economy and to integrate with the west, particularly by joining the EU.

The need for economic progress is urgent. While Lithuania was among the wealthiest provinces of the former Soviet Union, it is poor in comparison with neighbouring Poland, let alone western Europe. The centre of Vilnius, with its freshly-renovated old buildings, is a picture of prosperity. But it is a scene remote from the everyday lives of the country's farmers, factory workers and pensioners.

The Russian crisis has hit Lithuania harder than most east European countries outside the CIS. While its banks were less active in Russia than those of neighbouring Latvia and Estonia and suffered smaller losses, the impact on Lithuania's exporters is severe. Exports to the east have fallen 20-30 per cent. The official economic growth forecast for the year has been cut from 7 per cent to 5.5 per cent. Companies in exporting industries, trading and haulage are going bankrupt.

The turmoil is complicating efforts to limit the current account deficit, which threatens to yawn wider than the 13 per cent recorded in the first half of 1998. Yet, with foreign exchange reserves high, there is no danger of financial crisis.

The government rules out devaluation and the threats must be seen in perspective. Russia took 20 per cent of exports last year but the EU bought more than 30 per cent, including growing amounts of higher quality goods.

And the crisis could force restructuring in an economy which has been slow to modernise. "Lithuania is facing a challenge which, if passed successfully, would assure the world that it has managed to slip away from the influence of the former Soviet bloc and put its economy on sound market-oriented fundamentals," says Margarita Starkeviciute, an assistant economics professor at Vilnius University.

Foreign investment can help that process. The country will attract more than $1bn this year, including $510m from telecommunications privatisation, and hopes for the same next year. Western companies, led by export-oriented manufacturers have expressed interest. Among them is Intel, the US microchip maker, which is considering Lithuania as a site for a $500m plant.

Valdas Adamkus, a former US government official who became Lithuania's president this year, says: "We have to open up Lithuania's markets, invite foreign investors here and provide favourable opportunities."

However, future investment cannot be guaranteed. International sentiment is more cautious about emerging economies than six months ago. And, despite reforms, Lithuania still has some way to go before creating a truly open economy.

Much to the annoyance of Lithuanians, their country is often assessed by foreign business people as less user-friendly than Latvia or Estonia. Business services are often expensive and sometimes inefficient. Financial services contribute only 2.5 per cent of GDP. Stock market trading is low.

Bureaucracy rules, giving rise to frequent corruption. For example some 80 per cent of goods moved through customs in Lithuania are inspected, compared with 5 per cent in the EU. Gediminas Vagnorius, prime minister, urges all business people with a red tape problem to come to him. But that is only a help to big companies; small entrepreneurs say they often have little choice but to pay bribes.

Privatisation has done much to promote the creation of an open economy, with some 70 per cent of GDP now in private hands. But the remaining 30 per cent includes the State Savings Bank (the biggest bank), the utilities and other service providers which are a drag on business.

Ministers recognise the problem. They plan ambitious disposals over the next 12 months, including the Savings Bank, the Lithuanian Agriculture Bank, the state-controlled insurance company and shipping and dock management companies at Klaipeda, which claims to be the only permanently ice-free port in the Baltic states.

The government is committed to further market-opening reform. Mr Vagnorius's centre-right coalition, which won power two years ago, is expected to stay at the helm at least until the next elections in 2000. He has developed a good rapport with Mr Adamkus. Their main critic is Vytautas Landsbergis, the flamboyant speaker of the Seimas (Parliament) and hero of the independence fight. His uncompromising attacks on ex-Communists have made him something of a maverick. Mr Adamkus and Mr Vagnorius favour a more forward-looking approach.

Lithuanians have yet to come to terms with their past. As elsewhere in the ex-communist bloc, there are endless arguments about responsibility for actions during Soviet rule. Even more painful are memories of the Second World War, when Lithuania was invaded by Soviet troops, then Germans, then Soviets again.

The trial of 91-year-old Aleksandras Lileikis on charges of having sent Jews to death camps is forcing Lithuanians to re-examine their history and re-opening old wounds. Some Jewish groups accuse Lithuanians of widespread collaboration in the Holocaust and many Lithuanians arguing their suffering has been forgotten. Mr Adamkus has set up a commission to study the war and its aftermath.

But the 72-year-old president is more concerned about the future than the past. Mr Adamkus's main aims are to help lead Lithuania into closer cooperation with the west via membership of Nato and the European Union. The government accepts Nato membership is some way off. But it is building military ties with the alliance through the partnership for peace programme and, more directly, by creating a joint peace-keeping battalion with Poland, which is due to join Nato next year.

As for the EU, Lithuania's immediate goal is to win an invitation to the accession negotiations involving other east European countries. The government is particularly irritated Lithuania is excluded from the talks when Estonia is already at the table and Latvia has recently been told that it might join next year.

Mr Vagnorius says Lithuania is being "punished" for refusing to close the Ignalina Chernobyl-type nuclear power station. The EU has not set specific conditions but has made clear it wants a promise to close the plant.

Meanwhile, relations with Russia are the best among the Baltic states. Lithuania has a signed border treaty with Moscow. With only a small Russian-speaking minority it faces few of the difficulties which dog Latvia and Estonia over their treatment of ethnic Russians.

But the similarities among the Baltic states are probably more important than their differences. All are engaged in the same monumental work of constructing new states on the ruins of communism. All are finding that, while building the future is less heroic than tearing down the past, it is at least as difficult.

● *The text of this survey is available on the FT's web site at the address above.*

INTERNATIONAL RELATIONS by Stefan Wagstyl

Keen to win western friends and influence

Recent setbacks on the road to EU and Nato membership have done nothing to dim enthusiasm for the alliances

For Lithuania, nothing is more important in international relations than building links with the west. And few things are more disappointing than a snub – intended or unintended – from the US or the European Union.

Also, as a state which has newly recovered its independence and exists in its present incarnation only since the break-up of the Soviet Union, Lithuania has a young country's sensitivity to the opinions of others.

It was little surprise then, that Lithuania reacted with anger and disappointment to the latest external report on its political and economic condition – the progress assessment on its preparations to join the EU, published this month by the European Commission. The report praised many reforms carried out in Lithuania but said more had to be done, including efforts to prepare for the closure of the Ignalina Chernobyl-type nuclear power station.

The commission concluded that Lithuania was not ready to start accession negotiations. To make matters worse for Vilnius, a separate report on neighbouring Latvia decided that Latvia was almost ready to join the talks – and could be invited to the table as soon as next year – to sit beside six other candidate states, including Estonia.

The reality of being ranked third among the three Baltic states and the possible prospect next year of becoming the only Baltic nation to be kept outside the negotiating chamber inflamed opinion in Vilnius.

Government ministers declared Lithuania was suffering discrimination because of its failure to prepare for closing Ignalina. Gediminas Vagnorius, prime minister, says it is wrong for a decision to close to be treated as an unspoken precondition for Lithuania's admittance to accession talks. It is a subject for discussion only after negotiations have started. "The current Lithuanian economic reforms are not worse than or less developed than those in Latvia. If Latvia is assessed more favourably this should be seen as a demand to punish Lithuania for a political decision [to keep open] the Ignalina power plant."

The government does not see EU concern over Ignalina as purely a safety matter. Officials say they detect a conspiracy to protect the interests of west European utilities which, they claim, fear low-cost competition from Ignalina, once Lithuania is connected to the European electricity grid.

Even Valdas Adamkus, the mild-mannered president, is convinced that plots are being plotted. "There are economic issues [involved in EU concern over Ignalina] which are not being brought into the open but definitely exist," he says, adding that "economic issues" means the concerns of western utilities.

Nevertheless, Mr Adamkus argues that Lithuania could be invited to accession negotiations as soon as next year. This seems optimistic given growing scepticism within the EU about enlargement as a whole. But the president's words show how committed Lithuania is to membership.

As far as Nato is concerned, Lithuania has accepted with reasonably good grace that it will not be among the first wave of east European states – Poland, the Czech Republic and Hungary – to join the alliance formally next year at the Nato summit in Washington.

Ministers also recognise that a second wave of enlargement may not come for a few years. However, the government clings to the hope that the country will be mentioned in official summit documents as a potential future member. The purpose is not to force Nato, in the last analysis, to defend Lithuania against a possible Russian attack, however unlikely that may seem today. Rather, membership is seen as a help in making such an attack less likely.

Mr Adamkus quotes a comment made by Zbigniew Brzezinski, the former US national security adviser, about the Berlin airlift. Berlin was not defensible but it was protected, said Mr Brzezinski. Mr Adamkus says membership could bring a similar level of protection to Lithuania.

Meanwhile, Lithuania is doing what it can to bring itself closer to the west under its Nato partnership for peace programme. It is increasing military spending, introducing Nato-style command and training procedures and buying Nato-compatible equipment. It hosted Nato exercises involving 4,000 troops, the biggest wargame in Europe this year. It is also preparing a joint battalion with Poland for international peace-keeping duties which will be ready for service in January – just before Poland joins Nato.

The battalion will help cement better relations with Poland. The two nations, which were for centuries linked in the Polish-Lithuanian state, have this century been involved in serious territorial disputes, leading to fighting between Poles and Lithuanians at the end of the First and Second World Wars. Eufemia Teichmann, the Polish ambassador to Vilnius, says that the tension of the early 1990s has given way to much improved relations though Warsaw still has some concerns about the treatment of the Polish minority in Lithuania over issues including land restitution claims. Mrs Teichmann hopes that growing economic ties will further promote goodwill between the two states.

Algirdas Saudargas, Lithuania's foreign minister, says: "Relations are improving after difficult moments in this century."

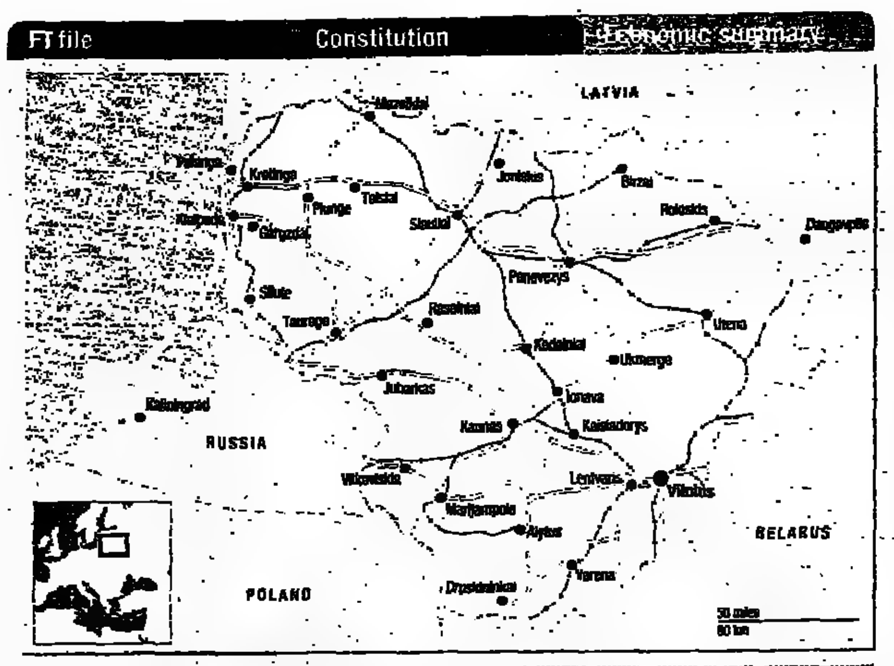
Meanwhile, Lithuania is pursuing cooperation with Latvia and Estonia. Despite the competition for EU and Nato membership, the three countries see value in improving relations – if only to show future western partners of their neighbourliness. Military cooperation includes the Baltic battalion for international peace-keeping, Baltron naval cooperation and Baltnet, a common air defence monitoring centre to be based in Lithuania.

Mr Saudargas says there are limits to the concept of Baltic unity, which is sometimes touted in the region. But even as the three countries pursue integration with the EU there is scope for integration at a more local level, he says.

Of the three states, Lithuania probably enjoys the best relations with Russia, even though its withdrawal from the Soviet Union was the most dramatic. At less than 10 per cent of the population, the Russian minority is much smaller than in Latvia or Estonia, giving rise to fewer ethnic tensions. Also, given the strategic importance of access to the Kaliningrad enclave, Moscow has more need of good relations with Vilnius than with Riga or Tallinn.

Mr Saudargas says good relations are "no accident" because Lithuania has worked hard to achieve them with a range of agreements covering Kaliningrad access and other issues.

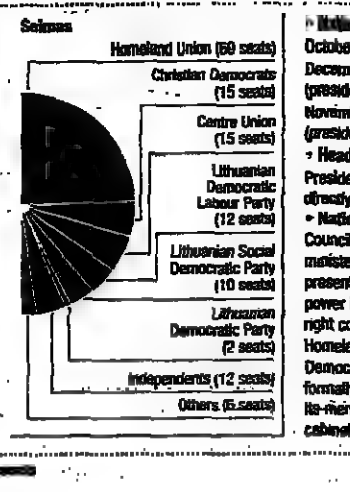
FT file | Constitution | Economic summary



Constitution

- **Official name:** Republic of Lithuania
- **Legal system:** On March 11 1990 parliament voted to restore Lithuanian independence. A new constitution was approved on October 25 1992
- **National legislature:** Unicameral assembly, the Seimas, with 141 members, elected for four years
- **Electoral system:** 71 Seimas seats are directly elected and 70 seats are elected on a proportional basis; parties need 5 per cent of the vote to be represented, with the exception of parties representing national minorities. All Lithuanian citizens over the age of 18 may vote

Seimas



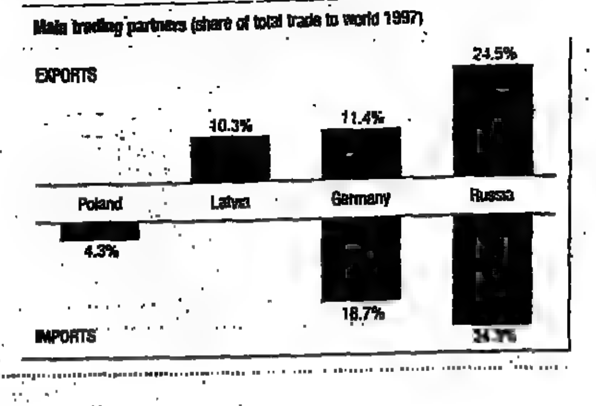
- **National elections:** October-November 1996 (legislative); December 1997-January 1998 (presidential); next elections October-November 2000 (legislative) and 2002 (presidential)
- **Head of state:** President (currently Valdas Adamkus) directly elected for a five-year term
- **National government:** Council of Ministers headed by the prime minister, Gediminas Vagnorius. The present government, which came in to power in November 1996, is a centre-right coalition composed of the Homeland Union and the Christian Democrats. The Centre Union is not formally part of the coalition, but two of its members are represented in the cabinet

- **Area:** 65,200 sq km
- **Languages:** Lithuanian, also Russian and Polish
- **Currency:** Litas
- **Exchange rate:** Fixed $1=4.0 litas
- **Population:** 3.7m (1998 estimate)
- **Main cities & population (1995):** Vilnius (capital) 592,000; Kaunas 433,000; Klaipeda 208,000

Economic summary

	1998 (forecast)	1999
Total GDP ($bn)	10.2	9.6
Real GDP growth (annual % change)	5.5	5.5-6.0
GDP per head ($)	2,754	2,600
Inflation (annual % change in CPI)	3.0	6.0
Industrial production (annual % change)	6.5	3.0
Unemployment rate (% of workforce)	6.6	8.6
Money supply, M2 (annual % change)	12.5	20.0
Foreign exchange reserves ($m)	900	1,000
Government expenditure (as a % of GDP)	17.8	18.7
Total foreign debt (as a % of GDP)	25.2	27.6
Current account balance ($m)	-1,320	-983
Merchandise exports ($m)	4,530	5,200
Merchandise imports ($m)	5,920	6,430
Trade balance ($m)	-1,390	-1,230

Main trading partners (share of total trade to world 1997)



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RELATIONS WITH RUSSIA by Anthony Robinson

An amicable parting

Russia's concern to protect its Kaliningrad enclave and *Lithuania's self-confidence have assured good relations*

Mikhail Gorbachev, the man who tried and failed to reform and preserve the Soviet Union, genuinely believed that the Baltic states would face a bleak future if they broke away from the motherland.

But one of the abiding images of the chaotic last years of the Soviet regime was an increasingly irritated Soviet president being answered back by people who thought differently during a walkabout in the Lithuanian capital.

A decade later it is Russia which is in a deep economic crisis while Lithuania and the other former Soviet Baltic republics have introduced reforms to reduce their dependence on the Soviet market and lay the basis for sustainable growth.

Two-way trade last year amounted to $2.3bn, with Moscow enjoying a surplus of around $500m thanks to exports of oil for the Mazeikial oil refinery and gas for domestic and industrial use.

Exports to Russia fell sharply after the August crisis with its steep rouble devaluation and virtual paralysis of the banking system. But Lithuania, together with Poland, remains an important supplier of food and consumer goods to Kaliningrad, the Russian enclave surrounded by Polish and Lithuanian territory.

The break-up of the Soviet Union left Kaliningrad as an isolated outpost of Russia. This physical isolation gave Moscow a powerful reason to seek good relations with both Belarus and Lithuania, through whose territory pass the road and rail connections between Russia and the 950,000 Russian citizens in and around Kaliningrad.

As presiding chairman of the Council of Baltic Sea States, Lithuania is a strong supporter of moves to involve Russia, especially St Petersburg and the surrounding Leningrad region, more closely in Baltic regional economic co-operation including the Baltic electricity power ring.

The latter is of particular interest to Gazprom and to UES, the Russian electricity grid and power company.

In general, Russia has had better relations with Lithuania than with any other Baltic state after tense moments in 1991. More than 700 people were injured and 14 killed on the night of "Bloody Sunday" in mid-January, 1991, when hardline Soviet conservatives chose Lithuania to mount an armed counter-attack against the Gorbachev-led reform movement.

Soviet special forces battled for control of the television station in Vilnius, the Lithuanian capital, as the world held its breath.

In the end, pro-reform forces in Moscow prevailed and Sergei Shakrai, now legal adviser to Yevgeni Primakov, the Russian prime minister, was sent to the Lithuanian capital to start talks about the withdrawal of Soviet troops from a republic whose parliament had unilaterally declared its independence nine months earlier, in March, 1990.

That declaration was seen as a betrayal by many pro-*perestroika* reformers in Moscow, including Mr Primakov, who spent much of the previous year discussing greater economic autonomy for the Baltic states.

The Russians wanted Baltic support for economic and political reform of the Soviet Union, not a decision to go it alone which weakened pro-reform forces in the Soviet leadership.

It was not until the failure of the coup that Lithuania and the other Baltic states ensured their independence by formally leaving a Soviet Union which lingered on for another few months until dissolved by president Gorbachev on Christmas Day.

Despite the keen sense of loss which many Russians felt, and still feel, about the loss of lands which first came under Russian rule early in the 18th century, Russia and Lithuania managed their divorce with less rancour than others.

This is partly because the largest of the three Baltic states has the lowest proportion of ethnic Russians.

Just more than 9 per cent of the population was classified as ethnic Russian in the last Soviet census and the proportion is now less than 8 per cent. The huge Lithuanian majority, with its distinctive language, history and culture, did not share the fear of being swamped by an alien people which provoked restrictive post-independence citizenship laws in Estonia and Latvia.

But the divorce was also eased by Algirdas Brazauskas, the nationalist-minded communist party boss. Trusted and respected by powerful people in Moscow and familiar with the twists and turns of the political struggles over reform within the Soviet establishment, he played an important role in the independence process.

It was thanks to such insider knowledge that Vytautas Landsbergis, then head of the Lithuanian Supreme Soviet, was able to sign a treaty on inter-state relations with Boris Yeltsin, the Russian leader, in 1991.

In this agreement the leader of Russia formally recognised that the Soviet Union had invaded Lithuania in 1940 while the Lithuanian leader, by signing a state treaty, became the first leader of a "foreign" state to recognise Russia.

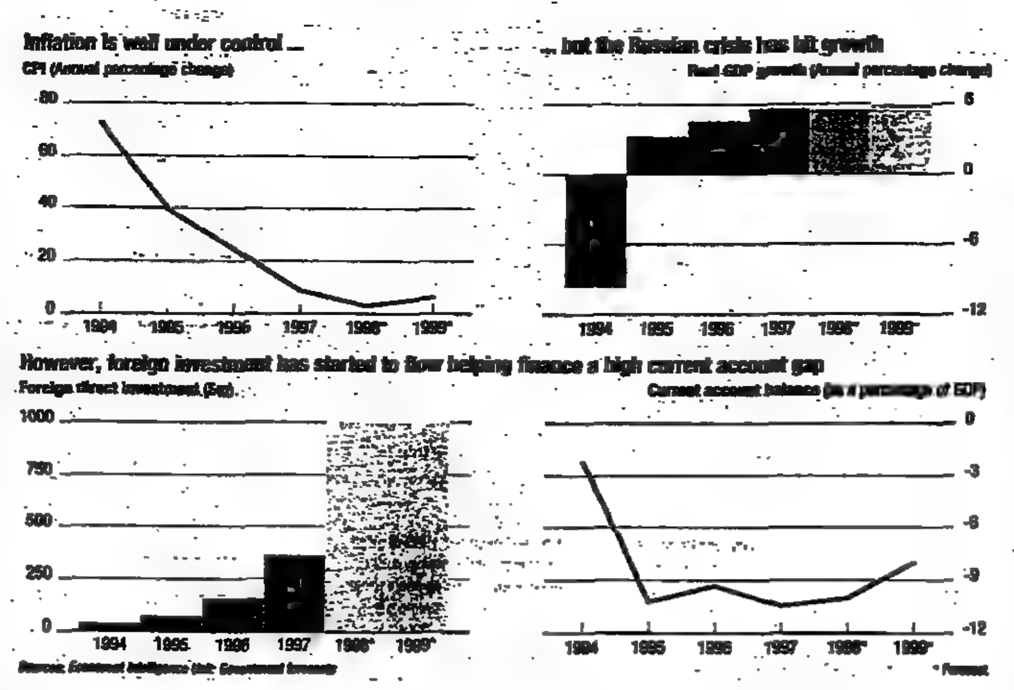
Symbolically important, the treaty was overshadowed three weeks later when Mr Yeltsin faced down the coup, publicly humiliated Mr Gorbachev, outlawed the Soviet communist party and pursued policies which guaranteed both Baltic independence and the disintegration of the Soviet Union.

مكتبة من الأحوال

ECONOMY by Stefan Wagstyl

The best and worst of times

For those facing west, the outlook is good. For those looking east, it is gloomy



On the outskirts of Vilnius, a wind-swept field is home to one of the country's largest second-hand car markets. It is open to anyone, whether with one vehicle to sell or 100.

A few months ago as many as 3,000 cars a day were traded here, mostly Volkswagens, Opels, Audis and Fords, with a smattering of more expensive Mercedes and BMWs. Today, the traders say, they are lucky to sell a few hundred.

"The Russians have gone," says Gedas Karalus, a part-time trader who also drives a taxi. He says he can manage financially but a friend who bought three vehicle transporters is falling behind on his lease payments. "He will have to give the trucks to the bank."

In the prosperous old centre of Vilnius, the disconsolate car traders seem very far away. Old buildings are being renovated and new ones are on the drawing board, including a multi-storey office block, two shopping centres and a Sheraton hotel.

Business is so brisk that foreign architects are being drawn to the city, among them Douglas Abrahams, from Scotland. "I'm expanding my practice," he says. "Vilnius is a good base for the whole of eastern Europe."

Striking a balance between the views of Mr Abrahams and those of the car traders is not easy with the Russian economy still in turmoil. The government's assessment, in the words of Algirdas Semeta, the finance minister, is that the impact "will not be significant".

But in some corners of industry – notably among companies such as car traders, food processors and textile makers with big Russian exposure – the mood is gloomy. "I understand our government's very optimistic. But I can see in business that things are terrible," says Egidijus Pazarauskas, chief executive of Kauno Audiniai, a Kaunas-based cotton and artificial fibre mill.

The government admits that the economy is slowing sharply. After 7.5 per cent GDP growth in the first half of 1998, the country is braced for about 4 per cent in the second half, giving about 5.5 per cent for the year, according to the finance ministry. Next year's forecast is being cut from 7 per cent to 5.5 per cent.

The direct damage to banks is limited because, with just 1.4 per cent of assets in Russia, Lithuanian banks were far less active in Moscow than some others in the region.

The real concern is about the effect on Lithuanian exports to Russia. Before the crisis Russia accounted for about 20 per cent of total exports, with almost a further 20 per cent going to Ukraine and Belarus which are also suffering economic difficulties. With total exports accounting for 55 per cent of GDP, the numbers paint a grim picture. Roughly a fifth of the economy, is in some way, dependent on the Commonwealth of Independent States.

However, not all these sales are lost. Apart from second-hand cars – which are transit business – Lithuania's main export to Russia is food, a basic necessity which Russians will continue to import. After a virtual stoppage of shipments in August, these exports are recovering, albeit slowly and often accompanied by complicated financing arrangements, such as barter.

And the effect of the fall-off may not be all bad. The loss of Russian sales will speed some overdue industrial restructuring. Outside food processing, companies exporting to Russia often specialise in low-price goods made to old designs on obsolete equipment, notably in textiles and engineering.

Mr Pazarauskas says consolidation in the textiles industry, for example, is long overdue as the government has kept open inefficient state-owned mills by allowing tax and other public bills to go unpaid.

However, the government must manage the immediate future carefully. It has bowed to pressure from the agricultural lobby to increase public support during the crisis. But it is also seeking to cut public spending by 2 per cent to accommodate the expected shortfall in tax revenues.

Public finances are in reasonably good shape, with the fiscal deficit forecast at 0.5 per cent for 1998 and targeted at 0.38 per cent for next year. Lithuania's inflation rate is the envy of the region, running at a forecast 3 per cent for 1998.

The external accounts look less stable. The current account deficit in the first half was 13.4 per cent, a level which started alarm bells ringing and prompted the government to take action, including some import controls. For the year, Mr Semeta is aiming at a 10 per cent deficit, with further reductions next year – targets which private sector economists regard as very optimistic.

There is no immediate threat because the deficit is being funded this year by a sharp leap in foreign direct investment to more than $1bn in 1998. This includes privatisations, led by the $510m acquisition of a strategic stake in Lietuvos Telekomas, the telecommunications utility, by Telia of Sweden and Finland's Sonera. The government hopes that a string of privatisations next year, augmented by greenfield projects, will gather a further $1bn-plus. But, given the cautious international environment, this may also be overly ambitious.

Ministers are taking precautions with plans for an Ecu200m Eurobond issue. However, Deutsche Bank, the German bank, has warned that devaluation of the litas might come on to the agenda.

One possibility might be to devalue next year when the government considers changing the currency arrangement from the present fixed link to the dollar to a 50:50 tie to the dollar and the euro. The Bank of Lithuania, the central bank, says it will consider re-pegging the currency once it has observed the euro in action but rules out devaluation.

PROFILE
VALDAS ADAMKUS

Return of the native

Valdas Adamkus, Lithuania's genial 72-year-old president, is one of the more unlikely political success stories of the former Soviet Union.

A US career bureaucrat for 27 years, he was still living in America until a few months before he won an unexpected victory in the country's presidential elections late last year. He remained a US citizen almost until the day he took office. Since then, he has defied predictions that as a returning ex-patriate he might flounder in the swamps of day-to-day politics – his popularity has grown from the day he was inaugurated and is now running at 80 per cent in opinion polls. He is comfortable in a presidential palace which has hosted Polish kings, Russian czars and Napoleon.

Lithuanians acknowledge that he is succeeding in the main challenge that he set himself – to act as a bridge between political parties. He is also winning recognition from diplomats for his skill in presenting Lithuania's case in Washington and other western capitals.

Mr Adamkus has managed to project himself as a man of the future, even though he is older than Vytautas Landsbergis, the country's legendary independence leader, or most other leading politicians, including Gediminas Vagnorious, the 41-year-old prime minister. As one diplomat says: "Adamkus is a new force even though he is in his 70s."

Mr Adamkus says youth is the answer to the country's greatest challenge – overcoming the effects of 50 years of communism on people's thinking.

"It would be foolish to deny that the Soviet mentality continues to exist. But my hope is based not on the present but on the future. The young generation, in my short experience, is willing and is looking for a new way."

He admits that this is hard on older Lithuanians, including not just pensioners but working people in their 40s and 50s bringing up children. "But what else can you do? The country cannot isolate itself from progress." Recalling the misery of communist times, he adds: "The realities of life can be much harsher than this."

He bristles at the suggestion that, living in the US for most of his life, he was cut off from the realities of communism. Born in Lithuania, Mr Adamkus fought in the war-time resistance before escaping to the US, where he combined an active role in the Lithuanian-American community with a career in government, culminating in a senior post at the environmental protection agency.

As head of a US-Soviet environmental panel, he visited the Soviet Union regularly during the 1970s and 1980s, adding private trips to Lithuania to his official missions. "I was here for the past 25 years. Year after year, for a week or two. I was here at the worst of times. I heard things and saw many people standing in line for a loaf of bread. For somebody to tell me that I don't understand the conditions, that I don't understand the sufferings, that's not true."

But the years in a western democracy and market economy have given Mr Adamkus a clear vision of the direction which he believes Lithuania most follow. "Growing up in a western democracy you have a different outlook. Here it was a closed society. A regimented society. My experience helps me when we have to deal with building a market enterprise economy."

For Mr Adamkus, as for almost every Lithuanian politician, the most important aim is membership of western economic and political structures. As far as the EU is concerned, he is sanguine about the recent progress report of the European commission which suggested that Latvia might be invited to join accession talks next year but made no such comment about Lithuania.

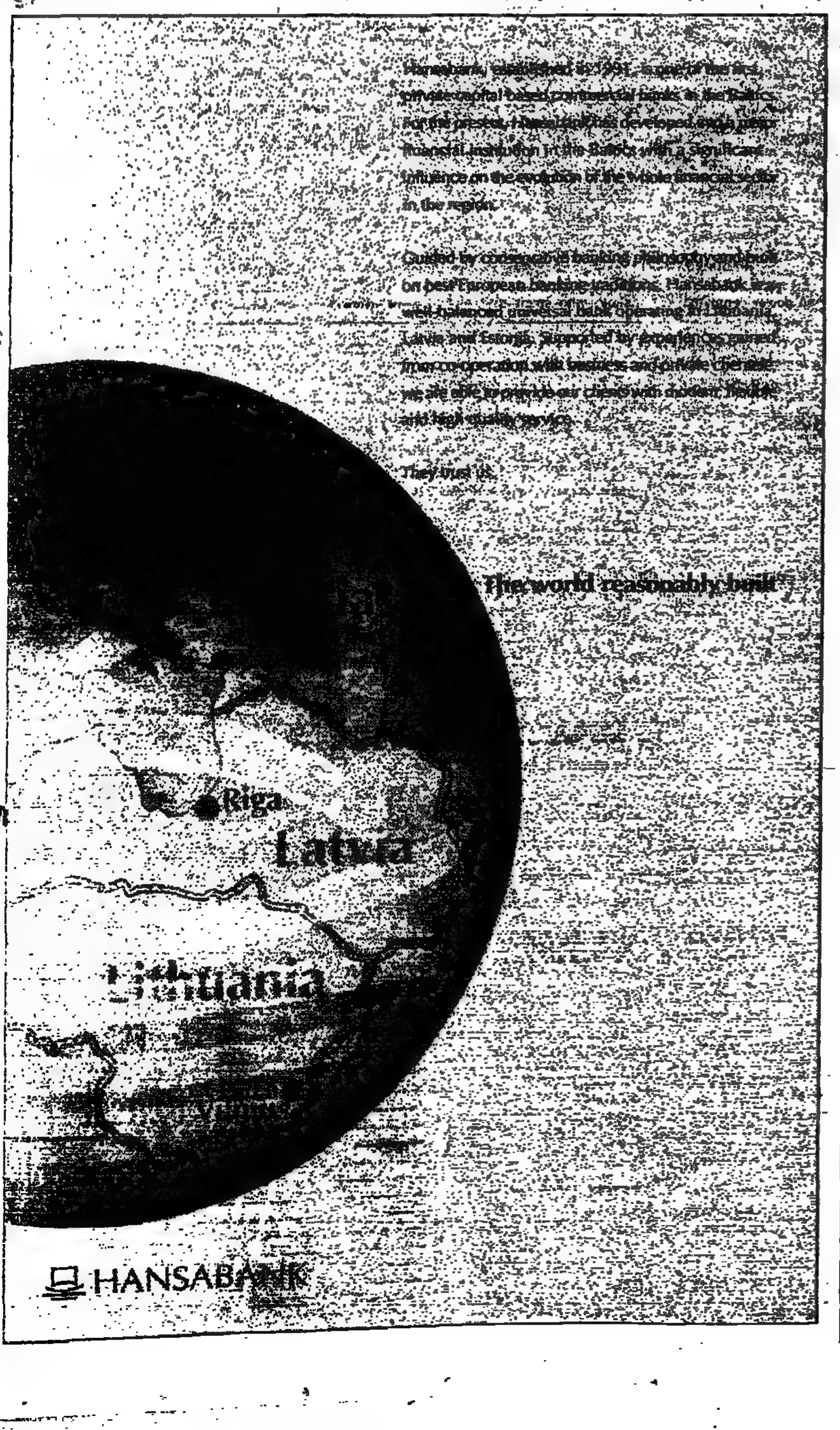
Mr Adamkus says Lithuania will "probably" be issued with an invitation next year and will be ready to join the union with the first wave of eastern and central European states in "five to seven years." He acknowledges there are disagreements with the EU over the Ignalina, Chernobyl-type, nuclear power plant. But he says there is no ultimatum from the EU demanding an immediate closure. With the plant supplying more than 80 per cent of Lithuania's electric power that would be "national suicide".

As for Nato membership, Mr Adamkus accepts that it might take 7-10 years but is worth pursuing. Nato may not be able to "defend" Lithuania in the literal military sense but it could "protect" the country in the same way as Berlin was "protected" during the airlift, says Mr Adamkus, echoing the view of Zbigniew Brzezinski, a former US national security adviser.

If Mr Adamkus is afraid of Russia, he does not show it. "I recognise that Russia is going through the worst period," he says. There is "economic chaos" and there are political troubles. "The political situation will settle down in the next couple of years. The economy will take longer but they will pull through. The west will help. They cannot afford to walk away from all that investment."

Mr Adamkus smiles when he describes how he divides his time between state ceremonials, administration and discussion meetings. He leaves a little time for himself – swimming in the early morning and reading at night. He is currently engrossed in George Bush's memoirs. Seeing, perhaps, what one president might learn from another.

Stefan Wagstyl



ENERGY by Matej Vipotnik

The good, the bad and the ugly

Lithuania boasts a mix of the under-utilised, the unreliable and the unpleasant

Lithuania inherited huge energy potential when it left the Soviet Union in 1990 but it is either under-utilised – for example, the Mazeikiu Nafta oil terminal – unreliable – the main export pipeline for Russian oil – or controversial – the Chernobyl-type Ignalina nuclear power plant.

Despite the size of the energy and oil industry, which amounts to more than 20 per cent of GDP, it plays anything but a dynamic role in the economy because of its gross inefficiency. Customers pay twice – directly through charges and indirectly by supporting subsidies which amount to 2 to 3 per cent of GDP.

The government has launched reforms aimed at reducing its role. It is reorganising the oil sector and has declared it will reduce its interference in its energy companies. An Energy Pricing Commission has been formed to overhaul the tariff structure in the hope of establishing cost-recovering pricing and the district heating network has been decentralised.

The oil sector is perhaps Lithuania's best energy asset. Mazeikiu Nafta is the largest oil terminal in the region and is directly connected to the leading export pipeline for Russian oil, most of which is shipped via the Latvian port of Ventspils.

To cash in on Russia's oil exports, and capitalise on Mazeikiu Nafta, the government launched the construction of the Butinge oil terminal. With an investment of up to $75m required to prepare Butinge for crude oil exports, the government recently reorganised the oil sector by merging Mazeikiu Nafta, the Butinge terminal and the Naftotiekis pipeline. It then sold a 33 per cent stake in the new company to Williams International, a US oil firm, for $150m, of which $75m came in cash and $75m in promissory notes.

Williams has promised to invest an additional $150m and, if all goes according to plan, the Butinge terminal may start exporting oil as early as next year. The state will retain a 57 per cent stake but plans to divest down to 25 per cent.

The decision to build Butinge in the face of opposition by the Latvian government, which fears competition to Ventspils, was also made to ensure that Lithuania did not become dependent on Russian oil supplies.

"Lithuania should have alternative possibilities for access to natural resources – not through its neighbours' borders but through Lithuanian borders," says Viktoras Valentukevicius, Lithuania's deputy economy minister.

The government is also seeking to divest its holding in Lietuvos Kuras, which runs petrol stations – 30 per cent of the firm is already in private hands.

There are more ventures in the works. An offshore oil exploration site in the Baltic sea is being held up by a dispute with the Latvian government over the demarcation of territorial waters. If and when the dispute is resolved, the site may yet attract a foreign suitor.

In the power generation and gas distribution business, things are not as rosy. Vast over-capacity exists in the business, up to three times higher than demand in power generation and four times more than demand in gas distribution. According to the World Bank*, the economy's energy intensity is three times higher than the OECD average.

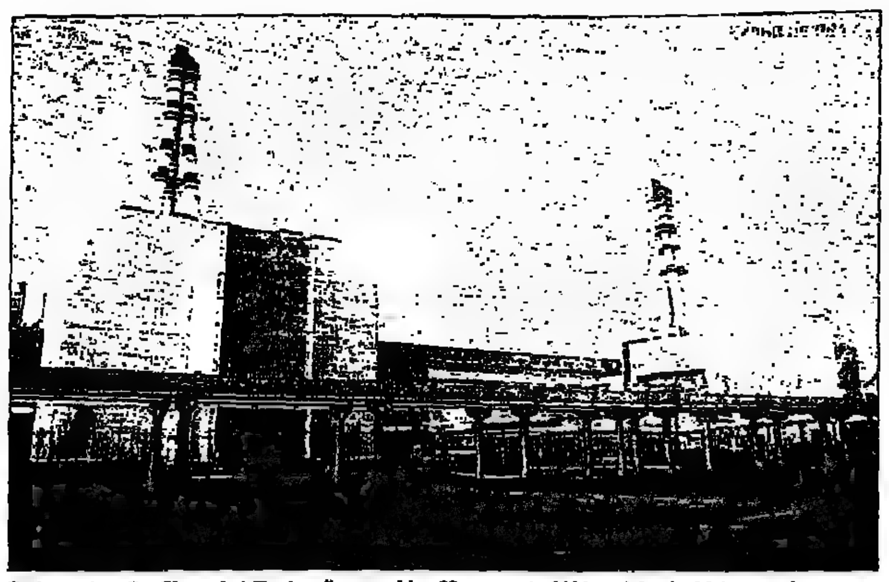
What is more, the pitiful condition of Lithuania's energy infrastructure has condemned district heating to never-ending problems. Its decentralisation will not solve the problems of these networks.

There are several pressing problems the government has to face. Investment to replace distribution technology is badly needed because heat losses in the network are almost one third of supply, a dismal level even by developing world standards.

It would help if customers' consumption was metered, though it is not clear that consumers will be ready to foot the higher tariffs. Indeed, many customers are likely to jump ship, to independent electric and gas heating, as subsidies decline and rates rise in district heating. Many district heating firms will probably fail, as consumers choose more efficient and cheaper energy providers.

In the longer-term, the government may have to consider the privatisation of its power and gas firms and its transformation from owner to regulator. More importantly, the government will have to tackle the long-term issue of energy conservation. "If only half of the estimated potential annual energy saving from conservation were realised, the country would have no need for nuclear power," the World Bank writes in a recent report.

* World Bank, Lithuania, An Opportunity for Economic Success, August 1998



Bad reaction: the Chernobyl-like Ignalina provides 80 per cent of Lithuania's electricity

PROFILE IGNALINA

The core is the problem

On a recent visit to the Ignalina Nuclear Power Plant, a foreign diplomat took a detour to the lavatory. "Nuclear plants and lavatories are basically about plumbing," the diplomat said afterward. "It is astonishing that an organisation which depends on high-tech plumbing has managed to produce such poor lavatories."

Concern about the quality of the plant is at the core of the European Union's worries about Ignalina and explains why it is urging Lithuania to set a clear schedule for the plant's decommissioning before it begins EU accession negotiations. For its part, Lithuania claims that closing Ignalina would be prohibitively expensive and would cripple the country's economy.

Built in the early 1980s, Ignalina's two 1500MW reactors were, at the time, the largest Chernobyl-type reactors in operation. Housed in grim concrete blocks 130km north-east of the capital Vilnius, the reactors generate about 83 per cent of Lithuania's electricity.

Following the Chernobyl disaster, western governments, citing safety concerns, called for the closure of all Chernobyl-type reactors, including Ignalina. The plant has been monitored closely by EBRD and EU funded experts since Lithuania regained its independence in 1990. Its reactor monitoring system has been upgraded and a second emergency shutdown system installed. Up to $100m has been invested in improving the plant's safety.

Research sponsored by the Swedish government has found that, with better trained staff and improved safety measures, the probability of an accident involving Ignalina's fuel will be comparable to western reactors.

If an accident did occur, however, the probability of radioactivity escaping the building would be higher than in modern western reactors because Ignalina's reactors are only partially contained by a wall of reinforced concrete and steel, according to Jan Nistad, director of the Swedish International Project for Nuclear Safety. The Lithuanian government disputes the view that the plant is potentially dangerous. "Experts have concluded that it could safely operate until 2010," says Valdas Adamkus, Lithuania's President.

The government maintains that it cannot afford to decommission Ignalina and develop alternative sources of energy without international financial support. "If the international community put before me $8bn, I would say: 'Yes, let's close it tomorrow'," Mr Adamkus says. "It would be suicide [to close the plant] – we would destroy our economy, so let's be practical."

However, Mr Adamkus says the government is working on an energy strategy which includes the option of closing Ignalina at some time, combined with the development of alternative energy sources.

Nevertheless, the government seems to be counting on Ignalina's electricity for some time to come. It recently signed a deal with Powerbridge – a consortium of US companies led by Duke Energy, the power company – to link Lithuania's grid with that of Poland, paving the way for the export of Ignalina's electricity.

The government's plans to keep open the station may yet lead to a clash with the terms of an agreement it signed with the EBRD in 1994, according to which it agreed not to rechannel Ignalina's reactors, a process which would extend the plant's operating life. Its plans could also be derailed if an international commission of inquiry, which is to review the plant in the near future, finds Ignalina too dangerous to run.

Matej Vipotnik

AGRICULTURE by Matej Vipotnik

Land locked in chaos

The de-collectivisation shambles and ownership restrictions are hampering the sector

When Stase and Vladas Jasinevicial left the collective farm in 1991, they received a rusty Soviet tractor, two cows and some fertiliser. Since then, through hard work and some luck, they have expanded to 34 cattle, installed milking machines and hired hands.

The Jasinevicial farm has done better than many farms since Lithuania began de-collectivising its agriculture in 1989. In a system plagued with unclear land ownership, unviable small plots, lack of credit and failing agri-businesses, they have managed to secure the land and the means to market their products. The Jasinevicial farm is a sizeable 54 hectares, owned by the family before collectivisation and returned in the land restitution programme.

The size of their plot entitled them to receive extra cattle during the break-up of the local collective farm. The local cheese factory, in Rokiskio, lent them money to buy additional cattle and machinery.

Compare their situation with other land-dwellers. The collective farms have been liquidated but many of the resulting farm plots are too small to be viable.

The average farm size is 11.9 hectares, one of the lowest averages in eastern Europe. Of the 500,000 claims for land submitted to the restitution programme, more than 190,000 are unresolved. To speed up the process, the government recently broadened the number of potential claimants. But the World Bank, which has looked at the issue, says this is actually likely to delay the process. Edvardas Makelis, the Agriculture Minister, concedes that wrapping up this programme may take another four years.

The victims of this bureaucratic muddle are farmers. Since less than 50 per cent of farmland is transparently owned, the land market is limited in size and scope. Farmers who wish to expand their plots face an uphill struggle. Lithuania's constitution bars legal entities from owning land and there is an upper limit to the amount of land any individual can own. This hinders the creation of commercially viable farms.

Not that it would be easy getting credit to purchase the land. Banks do not accept land as collateral and, therefore, farmers are unable to borrow the money to buy land. The World Bank argues that the problem of rural credit will be solved as more landowners secure their title to the land. As land ownership becomes transparent, land becomes easily tradeable.

But this can only happen if banks are allowed to own land. Will legal entities be allowed to own land? "There are no plans to change the constitution," says Mr Makelis.

The government should be credited however, for taking steps in the past two years to eliminate distortions and boost competition in agriculture. It has scrapped several farm subsidy programmes, introducing instead the Rural Support Fund, which is backed with Litas 375m of state money. This fund targets direct payments to higher-quality products, shrinks credit subsidies and creates a Credit Guarantee Fund, designed to help farmers buy equipment by chipping in up to 25 per cent of the purchase price.

But despite the government's willingness to cut minimum prices and direct subsidies and discontinue credit subsidies, Lithuania still has producer-subsidy equivalents amounting to up to three times those found in neighbouring Latvia and Estonia. Lithuania's subsidies are only one third of EU levels but, even so, this support, the World Bank says, "blurs market signals for farmers and it remains subject to political manipulation".

Tax preferences for agricultural firms are also significant. While firms usually pay a 29 per cent tax on profits, agriculture-related firms are levied a favourable 10 per cent rate. And farmers who make more than half of their income from farming do not pay income tax.

Despite the subsidies, Lithuania is a net importer of agricultural products. Food and agriculture account for about 17 per cent of total exports and about 13 per cent of imports. (These figures may, however, be misleading because both exports and imports figures include goods for re-export.)

Exports to the EU actually fell over three years from 27 per cent to 17 per cent in 1996. The fall coincided with a rise in exports to the CIS. On a positive note, 11 Lithuanian dairies received EU veterinary certification last year, which should boost exports to the west.

The government's agriculture reforms may be boosted by Lithuania's forthcoming membership of the World Trade Organisation. Many of the steps required to join have been completed and membership may just encourage consistency and transparency in farm policy.

To develop an internationally competitive sector, however, the government must stop running credit programmes, a World Bank report says. It should instead create the "legal and institutional mechanisms" which would encourage the extension of financial services to rural areas. And while the share of agriculture in GDP has not changed since the early 1990s, at around 10 per cent, rural employment has increased by one fifth. The farm sector has, in other words, become a safety net. As it overhauls the farm sector, the government will also have to take into account these pains of adjusting to the free market.

Say cheese: the Rokiskio dairy is a rare success

PROFILE ROKISKIO

Churning out a healthy profit

It takes good milk to make good cheese. Not an earth-shattering concept but one that become painfully obvious at the Rokiskio cheese factory in the early 1990s when its supply of high grade milk slumped.

The de-collectivisation of Soviet-era farms scattered hundreds of cattle across dozens of small farms. The output of these new farms was paltry, its quality low.

Rokiskio began issuing loans to local dairy farmers, based on a production quota, to finance investment in new cattle, milking machines, perhaps a refrigerated tank.

By helping farmers to expand Rokiskio helped itself. As farms grew, its milk supply increased and the quality improved.

The man behind the scheme is Antanas Trumpa, who has been at the helm since the 1970s. Under his management Rokiskio has enhanced its reputation as successful business.

"We didn't know what credit was in Soviet times," recalls Mr Trumpa. "If somebody borrowed, they did not return the money."

Since 1991, Rokiskio has called on the capital markets, raising Litas12m with a 1.2m share issue in February, 1997, and issuing another 300,000 shares in November of the same year. Half the issue was in Global Depository Receipts and foreign investors own 41 per cent of the dairy.

Mr Trumpa, whose family owns 33.8 per cent of the company, says $25m of the money raised has been invested in the plant.

Western machines have replaced Soviet ones and two refrigerated storage rooms have been built. This year Rokiskio was one of 11 Lithuanian dairies granted a European Union veterinary certificate which allows it to export to the EU.

In the early 1990s Rokiskio decided to reorient its exports toward the west.

"Western markets are more reliable," Mr Trumpa says – not to mention more lucrative.

Rokiskio has almost tripled its turnover since 1994, with annual sales growth of around 40 per cent. Six month figures for 1998 show a 33 per cent rise.

The company had a net profit margin of 12.4 per cent on sales of $39.8m in 1997, the highest in the Lithuanian dairy industry, says Vilfima, a Vilnius brokerage.

The share of cheese exports to Russia has risen from 36 per cent of total output in 1997 to 48 per cent in 1998.

Unlike many companies with trade exposure to Russia, Mr Trumpa says Rokiskio was hardly affected by the rouble's devaluation.

Its immediate loss amounted to $1m, as its Russian distributors were unable to pay for delivered goods in hard currency. They suggested barter instead.

Mr Trumpa settled for tractors, which Rokiskio then sold for cash to Lithuanian farmers – perhaps the very farmers who receive Rokiskio credits.

Matej Vipotnik

BANKING by Stefan Wagstyl

Tortoises emerge in front

The slow pace of change protected the sector from exposure to the Russian crisis and left it well placed to advance

There are few better symbols of the transformation of Lithuanian banking than the imposing headquarters of Vilniaus Bank. The building, built before the Second World War to house the local branch of a Polish bank, was used by the Nazi and Soviet authorities before passing, in the 1990s, into the hands of the country's biggest privately-owned bank.

"This building has a long history," says Julius Niedvaras, the chairman, as he walks through the heavy metal front doors. If Mr Niedvaras has his way, it will also have a bright future. The disclosure that the bank is in talks about selling a stake to Sweden's SEB banking group is indicative of Mr Niedvaras' determination to build Vilniaus into one of the leading banks of the Baltic.

It is a considerable challenge. First Lithuanian banks, like others in the region, must overcome the impact of the economic turmoil in Russia. Next, the government must decide about structural change, including the privatisation of the two largest state-owned banks – the Lithuanian Savings Bank and the Lithuanian Agricultural Bank. Finally, banks must respond to the advance of overseas banks in Lithuania.

Lithuanian banks are less exposed directly to the Russian crisis than their rivals in the other Baltic states, notably in neighbouring Latvia. They had just 1.4 per cent of assets in Russia, compared with 8 per cent for Latvia's banks. "The impact is not great," says Reinoldijus Sarkinas, the central bank governor.

In contrast to Riga and Tallinn, no banks have been forced to close their doors in Vilnius. Snoras Bank, a Russian-controlled bank, has turned to its shareholders for fresh capital but it is small and unique among Lithuanian banks in the extent of its Russian links.

Bankers have much greater concern about their indirect exposure to Russia via Lithuanian companies exporting to the country since Russia accounts for a higher percentage of exports than in other Baltic states.

Mr Sarkinas estimates that loans to companies with "big exposure" to Russia amount to 490m litas, or about 5 per cent of total bank assets. He remains relaxed because "not a single company has gone bankrupt".

But others are less relaxed. The impact of the Russian crisis is only beginning to work its way through the economy. The distress is already painfully apparent at the family-run enterprises which dominate Russian-related industries, such as road haulage, garment-making and trading in second-hand cars.

Economists estimate that as much as 25 per cent of Lithuanian workers owe some of their living to Russia. Not all of this activity will evaporate. But banks are already feeling the pinch. For example, Vilniaus Bank's leasing subsidiary has taken charge of 20 lorries from owners who could not keep up with payments.

Nevertheless, both Vilniaus and Hermis Bank, the second largest private bank, expect to make profits this year, even after making Russia-related provisions. Few of their counterparts in Latvia and Estonia can make a similar boast.

Latvians and Estonians might return that one reason why Lithuanian banks have relatively little Russian business on their books is that they are less dynamic. Lithuania has been much slower to privatise banking and to encourage foreign banks into the industry. The Lithuanian Savings Bank, the biggest bank, is still in state hands as is the Lithuanian Agriculture Bank, which ranks fourth behind Vilniaus and Hermis. (These four dominate the industry with nearly 90 per cent of assets, leaving little for the remaining six institutions).

The government originally hoped to start privatisation with the State Commerce Bank, a troubled institution since folded into the Savings Bank. This year it tried to sell Agriculture Bank but stopped the process when it was left with one bidder, Parex Bank of Latvia. It plans to try again next year but foreign bankers are unlikely to rush to bid. Savings Bank is seen as a more attractive option.

"The Russian crisis comes at a very inopportune time for banking privatisation," says Peter Modeen, a banking expert at the World Bank office in Vilnius.

Lithuanian banks

September 30, 1998	Total equity $m	Total equity Market share (%)	Assets $m	Assets Market share (%)
Lithuanian Savings Bank	55.4	24.7	710.8	29.9
Vilniaus Bankas*	50.5	22.5	620.0	26.1
Bankas Hermis	42.3	18.9	368.6	15.5
Lithuanian Agriculture Bank	28.0	12.5	377.7	15.8
Litimpeks bankas	12.0	5.4	69.0	2.9
Siauliu bankas	9.2	4.1	35.8	1.5
Ukio bankas	9.0	4.0	48.3	2.0
Bankas Snoras	7.4	3.3	113.4	4.8
Industrijo bankas	6.7	3.0	15.6	0.7
Medicinos bankas	3.3	1.5	18.2	0.8
Total	224.0	100	2377.8	100

Source: Bank of Lithuania

* Audited results (IAS)

More than the future of two banks is at stake, as these two institutions, with 46 per cent of total assets, dominate the industry. They lag the private banks in efficiency and innovation but they provide the government with a powerful tool to interfere in banking markets. The World Bank, in a report on Lithuania, claims the state banks have weak capital adequacy and poor governance standards and that the State Bank is so big that it is "a potential parallel Treasury".

The World Bank gives credit for reforms which have been carried out in banking and corporate law but says that there is much more to do to create an open market. For example, government interference in banking still extends to setting pay for bank staff, which was recently tied to civil service salaries. Meanwhile, banks are constrained from developing their services by regulations, including a law which makes it difficult for banks to own property for more than 12 months, which inhibits using land as collateral.

Nevertheless, foreign banks are increasingly interested in Lithuania. Two have established branches – Kredyt Bank PBI of Poland and Societe Generale of France – and two others have representative offices – Norddeutsches Landesbank of Germany and Poland's Pekao Bank.

But foreign banks will only have a big immediate impact via acquisition. As well as the state banks, some private banks could be for sale, as the talks between Vilniaus and SEB indicate. Hermis may not be far behind. Ivo Guarguiev, chief executive of Hermis Finansai, the bank's investment banking arm, says Hermis is considering options including "bringing a strategic investor" into the bank.

As Mr Sarkinas says, there is plenty of room for growth. Financial services account for just 2.5 per cent of the economy. Automated teller machines, credit cards and consumer loans are all in their infancy. Even corporate lending is barely developed, with most banks concentrating on short-term finance. Long-term credits are almost unobtainable in domestic markets.

CASE STUDY
NSEL

Ripples swamp the flow

Lithuania's fledgling stock market has been hit harder by the Russian crisis than almost any other corner of the financial markets.

As in other emerging economies, equities have borne the brunt of the change in sentiment among international financial investors. The Litin index of leading stocks, which peaked in April at 975 points was trading this month at less than 400 – a decline of about 60 per cent.

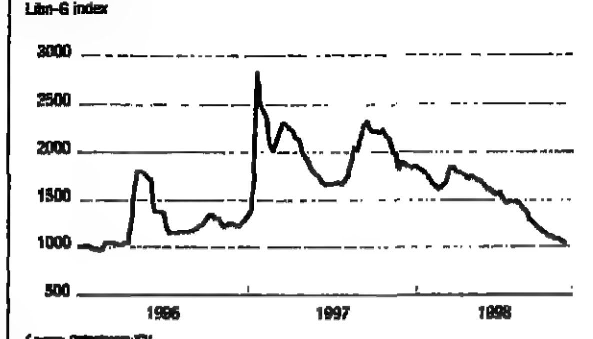
The outlook is so poor that even normally optimistic local financial companies do not hide their gloom. Hermis Finansi, the securities arm of Hermis Bank, the Lithuanian bank, says: "We do not see any significant improvement in the short-term. The buying side does not exist in this market and will not return until there is a ray of light worldwide."

However, Rimantas Busila, chairman of the National Stock Exchange of Lithuania (NSEL) since its foundation in 1993, says the exchange is surviving the trough in sentiment in reasonably good shape.

With a capitalisation of merely $3bn, the market plays a limited role in the economy. There are 1,372 companies on the exchange but most are very small and attract little trading interest. These groups are the fruits of the mass privatisation of small and medium sized companies in the early 1990s, under which some of the shares distributed to the public were placed on the exchange to create a market.

Almost all the investor interest is concentrated on the top 63 stocks, with a combined capitalisation of some $1.3bn, which are placed on either the "official list" of the six largest companies or the "current list" of 57 companies. The NSEL's third level, where the bulk of companies are placed, is called the "unlisted tier".

Stock market
Litin-G index



Source: Datastream/ICV

The official list includes the two top privately-owned banks - Vilniaus Bank and Hermis Bank – plus four manufacturers – Birzu Akcine Pieno Bendrove and Rokiskio Suris, both dairies, Medienos Plausas, a board maker, and Kalnapis, the largest brewery. These companies figure prominently in the portfolios of most international fund managers with Lithuanian stocks. The banks and the dairies have issued global depositary receipts.

Foreign fund managers say that the exchange's biggest problem is a lack of liquidity, with turnover running at less than $2m a day.

It is a weakness to which Mr Busila readily admits. "Low liquidity is a problem for all emerging markets," he says. Even the top six stocks, which account for 40 per cent of the exchange's turnover, do not attract sufficient interest to make for truly liquid trading.

Mr Busila says the main reason is a virtual absence of domestic financial institutions capable of investing in stocks. The banks and the dominant state-owned insurance company are restricted, by law, in their investments. Private investment funds barely exist. Private pension funds do not, although plans are afoot to launch some next year.

As a result shares are owned by either foreigners (40 per cent) or domestic companies and individuals (60 per cent). Mr Busila adds that liquidity is further limited by the government's decision to ignore the exchange in large privatisations, such as the recent $500m sale of a strategic stake in Lietuvos Telekomas, the telecommunications utility.

Mr Busila hopes that future privatisations will include the sale of a portion of the stock on the exchange. He also hopes that recent changes in investment company law will encourage the creation of investment companies and that Parliament will pass the private pension fund law it is now considering.

Meanwhile, the decline in business is encouraging consolidation among the exchange's 49 member brokers.

Smaller companies were already under pressure from planned periodic increases in the legal minimum capital of a brokerage – designed to bring Lithuania into line with EU standards in the year 2000.

Recently, bigger mergers have materialised – headed by the acquisition by Vilniaus Bank of Vilfima, the biggest independent broking firm.

Stefan Wagstyl

TEXTILES by Stefan Wagstyl

The Emperor has no clothes

Companies catering for the Russian market will be damaged by its collapse

Drobe, a state-owned wool mill with Russia as its principal market, has been hit so hard by the collapse in exports that it has put some of its 2,400 workers on short-time. Other Russia-dependent textile companies are stockpiling goods in sports halls. Some are going bust.

At the other extreme, factories supplying western Europe are busier than ever, often planning new investments to expand output and raise quality.

The Russia crisis has highlighted the differences between the good performers in the Lithuanian textiles trade and the also-rans.

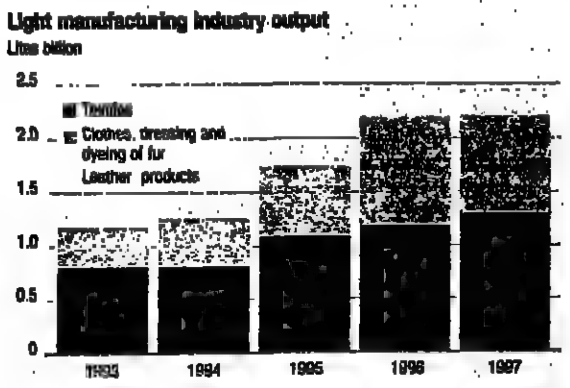
The industry was already under pressure from the economic turmoil in east Asia, which sent the prices of yarn, cloth and garments plunging as Asian companies cut prices to save their markets.

Events in Russia have made life even more difficult for some Lithuanian companies but by no means all. For, while Russia and former Soviet countries bought 12 per cent of Lithuanian textile exports last year, the EU accounted for 69 per cent.

The figures understate exports to Russia because of a large element of unrecorded trade which adds a further 50 per cent to the volume going east. But the EU is still far more important, especially since the beginning of this year when a duty and quota-free trade regime came into force.

Companies which have capitalised on the EU-bound trade are usually those which have done most to cut their previous dependence on Soviet markets.

Light manufacturing industry output
Litas billion



Source: ???

Among them is Utenos Trikotazas, a manufacturer of underwear and other clothes which, in 1989, sold 70 per cent of its output to the former Soviet Union and now sells 70 per cent to the EU. The company is so optimistic that it is considering launching its own brand in western Europe, says Nerijus Datkunas, finance director. "We can say that the Russian crisis has had no direct impact [on us]."

Such success is encouraging foreign investment in the industry. For example, Chargeurs of France has invested about $7.5m in a bankrupt mill in the industrial city of Kaunas to establish a plant employing 120 producing wool and linen yarn for export to France. The company plans to expand into weaving in the near future. German, Italian and Scandinavian companies are also big investors in the industry.

Aldona Paukstyte, financial controller of Filana, the Chargeurs subsidiary, says companies are attracted to Lithuania because of the its long tradition in textiles and highly skilled workers. The free trade agreement also helps in an industry which is still tangled internationally in the web of the Multi Fibre Arrangement, a restrictive trade pact.

However, success is not the whole story. Companies which have been slow to privatise or which specialised in products, such as heavy wool coats, for the Russian market are suffering losses.

Egidijus Pazarauskas, chief executive of Kauno Audiniai, a Kaunas mill for lightweight cloths, divides the industry into three groups. "A few will do well, like Utenos. About 12 will pull through, including this company. But most of the remaining 20 or so companies are already bankrupt in practice because they cannot pay taxes or social security or electricity bills."

These companies are in effect being propped up by the government. "This disturbs the market and drives down prices," says Mr Pazarauskas, who claims companies which pay their taxes are being forced to compete with those which do not.

He is already being approached for jobs by entrpreneurs who have lost their businesses. "I think the situation is getting worse."

Industry executives say consolidation is under way and will accelerate. The problems come with the government's reluctance to cut jobs in an industry that employs some 50,000. But Mr Pazarauskas says there is no coice. "Jobs will go. Foreign capital will come into the industry."

ARTS by Matej Vipotnik

The beggar's opera

Lithuanian mothers no longer want to put their children on the stage as musicians, feted and priviliged in the Soviet era, are finding modern times a little more difficult

Voice in the wilderness: Jose Carreras sang to half-empty houses because ticket prices were beyond most Lithuanians AP

Eugenijus Butvydas says he was a bad pianist, so he decided to go into management. He chose the right business but at the wrong time. When he took the post of business manager for the Lithuanian State Symphony, classical music was still reeling from the collapse of the Soviet Union and the loss of the privileged position culture held in society.

Many leading Lithuanian musicians had actively supported the independence struggle. A bearded musicologist, Vytautas Landsbergis, led the plucky Baltic nation in its struggle against Moscow. But once Lithuania regained its independence, the euphoria was replaced by the harsh reality of market economics.

Musicians who, in Soviet times, lived a reasonably comfortable life found themselves on $60 salaries. This was demoralising but what was worse was the loss of their pre-eminent status in society. In the old days, every prominent member of the community wanted his son or daughter to become a musician, says Mr Butvydas, who is now the business manager of the Vilnius Opera. But, today, he ruefully concedes, it is more glamorous to be an accountant, or a banker.

The way the music business is run has changed. In Soviet times, the opera would sell out a month's run in a day or two. As one would expect, people lined up for hours to secure a ticket. Today, it is not hard to get tickets for most performances.

The opera is bleeding but if it raised prices, 70 per cent of its visitors would have to choose between food and the theatre

This is hardly surprising considering the prices. The Vilnius opera, whose season lasts from September to June, stages four or five new performances every year. Seats for regular performances are priced between $2.50 and $8, while the best seats in the house for the event of the season, the traditional New Years Eve performance of Verdi's Traviata, sell for $20.

Not much, you may think, but too much for many in Lithuania. The opera is bleeding money but it really cannot raise prices. "If we raised prices, 70 per cent of our visitors would have to choose between food and the theatre," Mr Butvydas says.

Given the opportunity, who would miss a performance by tenor Jose Carreras, who came to Vilnius last year? No one, if they could. As it turns out, most did. With ticket prices selling for $20, half of the 1132 seat opera was empty, Mr Butvydas recalls.

To survive, the opera gets a hefty sum from the government. In what Mr Butvydas calls the "best year" of the Lithuanian State Symphony, the government had to contribute "only" 73 per cent of its budget. To put things in perspective, the philharmonic gets about 85 per cent of its revenue from subsidies by the Ministry of Culture. The Opera made Litas 2m last year. It received Litas 9m from the government.

Nor are there many wealthy would be art patrons around. Having made a bundle in the past few years, a few Lithuanian banks do contribute to the cause of culture. They gave about $200,000 to the leading music venues in 1997. "The banks think that's a lot of money but that's the cost of one performance," Mr Butvydas wryly notes.

To round off his income, and perhaps introduce market economics to the world of music, Mr Butvydas recently set up an agency to represent musicians. But he is having a difficult time. Musicians do not trust him, perhaps because they vividly remember the infamous Gosconcert, Soviet Union's music venue agency.

"Back then, you had to go to Gosconcert with sausages to get a tour in the USSR or abroad. If you arrived without milk or meat, no one would listen to you," Mr Butvydas recalls.

Today, it is market economics rather than petty officialdom which is making an audience hard to come by.

BUREAUCRACY AND CORRUPTION by Matej Vipotnik

Maladministration and malice muddy the waters

Businessmen must wade through red tape and rogues to make progress

Lithuanian government officials like to impress visitors with stories about the dynamism of the local economy and the helpful attitude of the authorities toward foreign investors. Speak to businessmen, however, and, with similar enthusiasm they will talk about the arcane laws and administrative obstacles they face on a daily basis.

Like all post-communist countries, Lithuania is struggling to overhaul its bureaucracy and laws. It is rescinding some regulations and introducing others – some of its own invention and others imposed by the need to comply with EU legislation.

Valdas Adamkus, Lithuania's president, has pledged to make the fight against bureaucracy one of the aims of his term in office. There are often too many layers of officials, he says. Also the mentality of older people has been shaped by their lives under communism.

Business people say that life is getting easier following the reforms of the recent years. Gintaras Rimselis, managing director of the Lithuanian subsidiary of Kraft Jacobs Suchard, a division of Philip Morris, the US tobacco and food group says his operation has seen a remarkable transformation since the early 1990s.

George Ortiz, a Belgian businessman who, together with his brothers Oliver and Nicolas, runs the 17-store IKI supermarket chain, agrees that life was much worse in the early 1990s. Then, IKI's competitors evaded tax so efficiently they could sell goods at less than the wholesale prices at which IKI could legally make purchases from distributors. "We had enormous problems with the uneven playing field in the country," Mr Ortiz says. "Things are not good but they are getting better."

Nevertheless, the country has a long way to go. A key difficulty is that the pace of putting in place procedures does not keep speed with the enactment of laws in the Parliament. Mr Ortiz complains that confusion results. Sometimes laws have retroactive effects going back a month, six months or even a year before the date they are passed.

EU demands complicate life by adding to the government's burden. "I think the government is being badly advised by the EU," says Mr Ortiz.

Tax law poses particular difficulties. Chris Butler, a senior manager at PriceWaterhouseCoopers, the accountancy firm, says that while Lithuania's corporate tax rate is attractively low at 29 per cent, there are restrictions on many expenses, such as entertainment, which would be allowed in the west.

Land laws are also complicated. Foreign companies are not allowed to buy land but can lease it for up to 99 years. However, securing leases is a complex process requiring permission from government officials, which can take a year. Even though purchases of non-agricultural land are to be permitted under laws now being considered by the government, much of the red tape may stay in place.

The complications breed corruption. As one foreign businessman says: "We have always fought to protect the system. But there comes a time when you can't fight for ever. There comes a time when you have to give a bit."

The European Commission, in a recent report on Lithuania's progress to EU accession, bears out many of the criticisms of bureaucracy. "Efforts still need to be made in the fight against corruption. Although stamping out corruption is one of the government's highest priorities, it remains to be seen whether the measures taken so far will be sufficient."

In the dock: the battle against bureaucracy begins at the ports

It urges that particular attention be paid to bankruptcy laws where procedures were, until recently, especially ineffective. By the middle of 1998 only 36 of 288 cases filed under bankruptcy proceedings had been completed. The commision hopes that a new law passed in October 1997 and not yet fully implemented will help. However, it says: "Lithuanian laws are frequently amended while the establishment of proper implementation structures often lags behind."

The World Bank echoes some of the Commission's criticisms. It urges the creation of clearer rules for the rights of accountants and of shareholders. It says too many managers, including those in private companies, do not work under the disciplines of boosting profits, as in market economies. "Instead, they operate in an incentive framework conducive to unchecked misappropriation or outright fraud."

Ministers say they are responding to complaints. Gediminas Vagnorius, the prime minister, invites companies with problems to come to him. But that is an option for bigger groups rather than the small fry.

Moreover, reforms are under way, as both the Commission and the World Bank admit. For example, the government is planning to unify the tax code to eliminate corporation tax altogether. Tax will be paid only on the dividends leaving a company. Personal taxes will be simplified. There is also a proposal for subsuming all tax rules into one legally-binding code, to reduce the scope for arbitrary decision-making by tax inspectors and so the opportunity for corruption.

Meanwhile, the government is improving the quality of judges and their training. But overhauling the judiciary is a long-term task in any country, particularly one where resources are scarce.

Business welcomes the progress but many executives say that a fundamental change in attitude has still to come – away from the command structures of the past and towards market-friendly regulation. As Mr Rimselis says: "The government must know it's impossible to be half pregnant. If we are building free markets they can't be half free."

PROFILE
KRAFT JACOBS SUCHARD

Success never tasted before

"The difference is like night and day," says Andy Vikta, finance director of Kraft Jacobs Suchard Lithuania, the US-owned coffee, snacks and chocolate company, which was one of the country's earliest foreign investors.

Mr Vikta was talking about the company's transformation from an inefficient state-owned enterprise into a modern market-oriented business, with more than 1,000 employees and sales last year of nearly $70m. The company, a division of Kraft General Foods, which is itself a subsidiary of Philip Morris, the tobacco and food group, invested in Lithuania in 1993 when it bought control from the government of a sprawling confectionery manufacturer in the industrial city of Kaunas.

Kraft spent $15m acquiring and modernising the factory and developing new functions in the business, including finance, sales and marketing, human resources and information systems. Separately, Philip Morris has invested $60m in cigarette production and marketing in Lithuania.

Kraft made full use of the Kaunus enterprise's existing assets, including the technical skills of the workforce, led by Gintaras Rimselis, who has been managing director for most of the 1990s.

Kraft says Lithuania is the only country in central and eastern Europe where the same executive has remained in charge through the modernisation process. Moreover, the Lithuanian arm is producing managers who are winning promotion to other companies in the Philip Morris group. Five Lithuanians are working in international postings.

Mr Rimselis says that the key to his success has been the support of his staff, who have backed him through disruptive changes, including job cuts. The plant employs roughly the same number of staff as before privatisation but today only about 700 workers are permanent, with a further 300 on seasonal contracts. This gives the company flexibility in planning production and controlling costs but it imposes new demands on the workforce.

Altogether, productivity has risen threefold since privatisation with output rising from 6,000 tonnes of chocolate and confectionery in 1992 to 21,000 tonnes last year. Also, the company imports Jacobs brand coffee from western Europe and Estrella snacks from Scandinavia, though locally-made chocolate and confectionery accounts for more than half of sales. Karuna brand chocolate has a market share of 50 per cent in Lithuania and Karuna confectionery 70 per cent.

Chocolate and confectionery has been hit hard by the Russian crisis, since Russia accounted for about half of exports of these products. Mr Rimselis says turnover this year will fall 15-20 per cent because of the sales lost in Russia and in Belarus.

Mr Vikta says the company suffered two months of losses in August and September but is now seeing a slight recovery in sales and is no longer running at a loss because it has reduced the use of temporary workers.

Mr Rimselis adds that plans for production increases next year are being put on hold. Nevertheless, the company has much to do developing the domestic market and sales to Latvia and Estonia. In the Baltic states, demand remains good, he says.

Mr Rimselis and Mr Vikta both say that doing business in Lithuania is getting easier year by year, though problems remain in dealing with bureaucracy. For example, customs officers insist all details on documents are completed perfectly. A small error can result in shipments being detained. Mr Rimselis says that while the government understands the need for deregulation, the officials enforcing rules do not want to relinquish their power. A big company such as Kraft can cope with the extra cost but smaller companies find it very burdensome.

Stefan Wagstyl

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GENERAL INFORMATION

FT Surveys
One Southwark Bridge
London
SE1 9HL
Tel +44 (0) 171 873 4090
Fax +44 (0) 171 873 3197E-mail ft.surveys@ft.com

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AFRICAN MINING

WEDNESDAY NOVEMBER 25 1998 Annual review

Treasure chest is waiting to be unlocked

When international mining groups believe the time is right they will find the money to realise some of Africa's wealth. **Ken Gooding** reports

Mining represents one of Africa's few real areas of progress. This is partly because miners have no alternative but to go where nature placed its rich mineral deposits.

Africa already provides most of the world's gold and gem diamonds as well as those more useful precious metals, platinum and palladium.

Most of the world's cobalt, copper, chrome and titanium dioxide is also mined in Africa.

There is a great deal left.

The US Bureau of Mines estimates that deposits in southern Africa alone hold nearly 90 per cent of the world's platinum and palladium, 85 per cent of the chromium, 75 per cent of the manganese, 50 per cent of the gold and 50 per cent of the vanadium.

Until recently, however, these riches were not available to the international mining companies which have the money and expertise to dig them out.

Since the end of the 1980s, however, change has been sweeping through the continent.

From Algeria to Zimbabwe, more than 30 African countries have made substantial changes to their mining codes in recent years.

Governments that once treated international mining groups with deep suspicion have started competing for their favours.

Many have watered down or abolished foreign ownership restrictions or punitive taxes that previously discouraged companies from exploring.

Mining groups are also being invited to bid for state-owned mining assets.

Governments in Africa, as elsewhere in the developing world, recognise that mining can play a vital role in improving a country's infrastructure. Road and rail links must often be established, water and power provided and the "human" infrastructure improved through the provision of medical and educational facilities.

Moreover, because the credit rating of large foreign mining companies is often higher than that of the host government, they may be able to provide this infrastructure more cheaply than can the public authorities.

However, despite these benefits, there is still a tendency for some African governments to treat mining by foreign companies differently from other industrial activities, says Ian Emsley, an economist with Anglo American Corporation who has studied long-term mining and development in Africa.

Some African governments still treat mining as a special case because they retain the perception that mining involves the plunder of the country's patrimony and creates little wealth for the government or employment for the population.

Mr Emsley argues, however, that over the next 10 years or so mining probably holds the best hope for African industrialisation and prosperity.

There are the obvious benefits of foreign exchange earnings, tax revenue and employment as well as those involving the development of infrastructure.

Mining groups have to bear in mind that not only do they have the challenge of digging out ore in remote areas, they are involved in an activity subject to political risks.

Construction of a mine usually involves a heavy commitment of capital and very long lead times before any reasonable financial return can be generated. So foreign mining groups will go ahead with large-scale projects only if they have reasonable confidence that a government's attitude towards inward investment is likely to be maintained.

That confidence has been creeping back. Whereas during the 1970s and 1980s scarcely a dollar was spent in Africa on mining exploration, spending has accelerated rapidly in the 1990s.

This year, Africa has drawn level with Australia in second place in the non-ferrous exploration league table – Latin America remains the most favoured region. According to the Metals Economics Group, a Canadian consultancy, exploration spending allocated this year for Africa is $493.4m. This represents 17.4 per cent of the $3.5bn that mining groups will spend worldwide.

Low commodity prices have forced mining companies to cut exploration budgets, so the global total will be down 31 per cent from $5.1bn in 1997, MEG predicts. Spending in Africa is also falling from $662.6m last year.

Nevertheless, MEG says that Africa is making the biggest advance in its percentage of the total because that 17.4 per cent compares with 16.5 per cent last year.

Mining companies have also shifted their targets within the African region. There is a massive cut in exploration spending in South Africa, for example, because mining companies there have been concentrating mainly on restructuring and it has not been clear until recently how the government's new minerals policy would pan out.

No sector has changed more than South Africa's gold mining industry.

Two years ago the industry consisted of six mining houses holding management control over 32 operating mines.

By the middle of this year the industry had reorganised and now consists of Anglogold, Avgold, Gold Fields, JCI Gold, Harmony, Durban Deep and a number of smaller operations. These companies are mainly 100 per cent owners of their operating mines.

South African gold companies are now more intent on exploring elsewhere in Africa and other parts of the world in a quest to become global mining groups.

MEG's statistics show exploration spending in South Africa this year will fall from $130.5m to only $4.8m and the republic's share of the total African cake will be down from 20 to 10 per cent.

At the same time, Tanzania has replaced Ghana in second place in the African exploration league. Spending there this year will be $57.7m, or 13.2 per cent of the African total, compared with $59.3m or 9.8 per cent in 1997. Spending in Ghana last year was $75.1m, for a 12.4 per cent share, against this year's $48.6m or 11.1 per cent.

Much of the money being spent in Africa is being used to search for gold which, once found, can usually be easily extracted and quickly sold.

A survey of planned capital expenditure, as distinct from exploration spending, of mining groups conducted last year by *Mining Journal* using its Metallica 2000 database, showed that in Africa it had jumped by 36 per cent since 1995 to $4.48bn. Some $1.95bn of the latest total was for gold projects and $1.43bn for copper.

Not so long ago Africa was the world's prime source of copper. If the so-called African copper belt is to regain something like its former importance, the privatisation of Zambia Consolidated Copper Mines needs to progress more smoothly than it has so far and stability must return to the Democratic Republic of Congo.

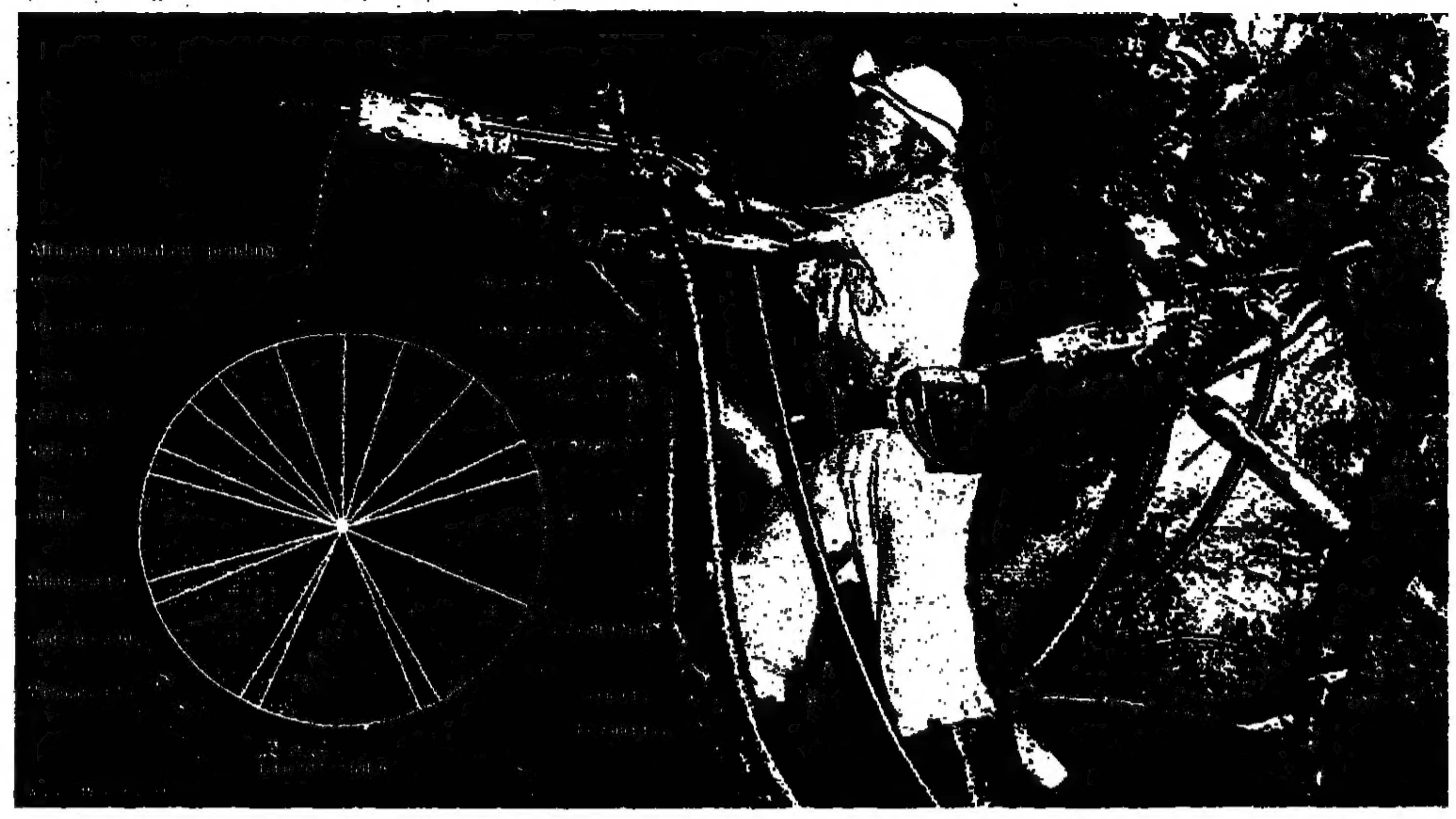
The copper belt's main undeveloped resource is Konkola Deep, which has the potential to produce 340,000 tonnes a year of copper, roughly 3.5 per cent of today's western world mined output and more than the present production from the whole of the copper belt.

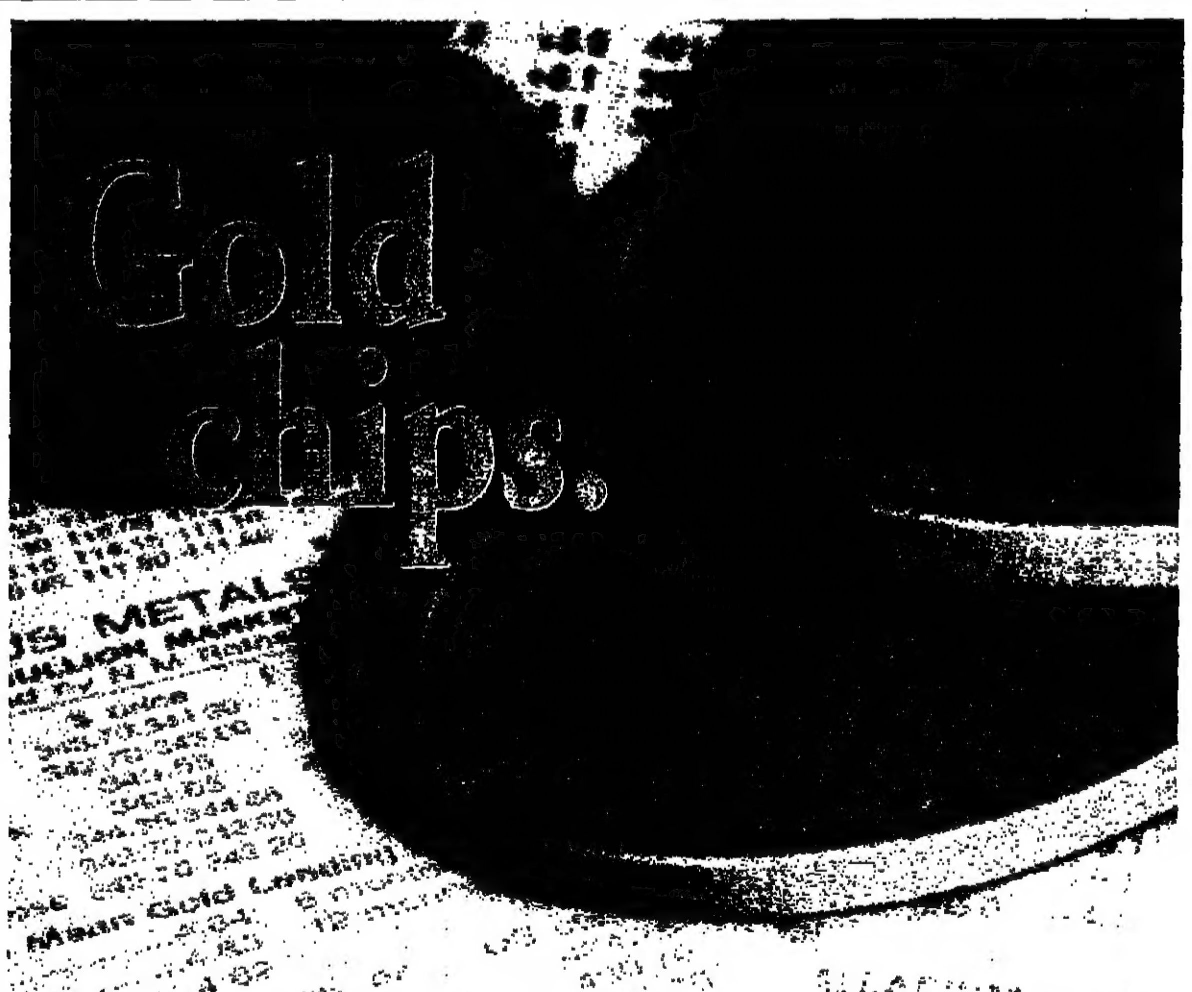
The cost of developing this resource could be as high as $800m. On top of this, some estimates put the cost of bringing the existing ZCCM operations up to modern standards at $2bn.

At present, capital for mining projects and exploration is hard to come by. The Bre-X scandal last year – when claims by this small Canadian company that it had found the world's biggest gold deposit in Indonesia proved to be be a gigantic fraud – made it difficult for other small and medium-sized mining organisations to raise fresh capital.

This year, the collapse in commodity prices to levels not seen since the 1930s recession, and the resulting impact on share prices, is giving even big mining groups problems.

These are relatively short-term difficulties, however, and do not alter the fact that Africa has a mouth-watering treasure chest of minerals waiting to be unlocked. When mining groups believe the time is right, they will find the money to try to claim some of that wealth.





CANADIAN INVESTORS by Scott Morrison in Toronto

Sombre mood of investors hits junior mining groups

Small groups attempting to develop projects in Africa have been forced to rely on private placements for their financing needs

Nevsun Resources, a Canadian exploration group, estimates it will need to raise $75m to develop its Tabakoto gold project in Mali.

With anticipated annual production of about 140,000 ounces at a cost of $175 an ounce, Tabakoto last year would probably have attracted strong interest from the investment community in Canada. But Nevsun is keenly aware that few investors these days are willing to take risks on junior mining ventures.

Canada's juniors have had difficulty tapping capital markets ever since the Bre-X Minerals fraud seared investors in mid-1997. The hangover from the scandal was still painfully fresh when "Asian flu" sent commodities prices into a tailspin and the mining industry into crisis mode.

The sombre mood among investors has impacted on many Canadian junior mining groups attempting to develop projects in Africa, a region in which Canada's exploration companies play a prominent role.

The health of the Vancouver stock exchange is a key indicator of the state of the junior mining industry in Canada. Home to more than 800 mining groups, almost 80 of which are active in Africa, the exchange's key index has fallen from 1,486 points in 1996 to about 400.

Dozens of exploration groups listed on the VSE are believed to have gone into hibernation to await the end of the present market.

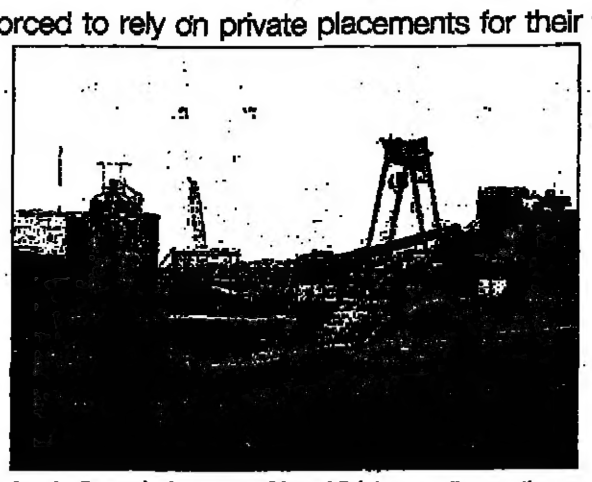
The industry slump has affected exploration worldwide and Africa has not been exempt. Metals Economics Group (MEG) in Canada suggests that non-ferrous metals exploration expenditure by Canadian junior mining groups in Africa will fall from about $220m in 1997 to an estimated $150m. African exploration budgets for Canada's leading mining groups are expected to drop to $14m this year from $20m in 1997.

David Cox, of MEG, says all mining groups have scaled back on grassroots exploration in order to focus on drilling at sites already known to have potential. With funds in tight supply, many small groups are being squeezed by the minimum exploration expenditure requirements placed on the property rights they hold.

"It is a delicate balance between providing the best value to our shareholders and maintaining ownership of good quality grassroots properties," says John Clarke, chief executive of Nevsun, which has four other properties on the continent.

In Africa, more advanced projects also face a financing crunch, particularly given the corruption and turmoil that plague many of the continent's nations.

Political unrest in the Democratic Republic of Congo has forced Tenke, the Canadian mining group, to postpone development of its $450m Tenke Fungurume copper-cobalt project. And events such as the early November rebel raid on the DiamondWorks mine in Angola, which left a number of mine workers dead, will only contribute to the perception that the continent is unsafe.



Angola diamond mine: rebel raids and fighting contribute to the perception that the continent is unsafe AP

"Africa is becoming an increasingly undesirable place to invest," says Art Ettlinger, of Yorkton Securities.

Senior producers have largely overcome that situation by funding existing capital projects through debt financing, but juniors do not have that luxury.

With small investors as well as large institutional investors still skittish after Bre-X and other mining scandals, the juniors have been forced to rely on private placements for about three-quarters of their financing needs, says Gamah International, a Canadian group tracking mining group financing.

Industry sources say many private placements involve insiders and investors close to the company.

Sutton Resources is hoping European financial institutions will prove more receptive to its proposal than were their North American counterparts.

The small Canadian company has held discussions with several European banks it hopes will finance its $211m Bulyanhulu project in Tanzania, one of the largest gold deposits in eastern Africa with proven and probable reserves of 3.75m ounces.

Sutton has already been forced to delay development because it cannot generate interest in capital markets and among North American banks, which are cautious about backing a new development in Africa by a junior with no current production.

"North American banks stay away from Africa," says Sutton spokesman Patrick Soares. "They are not as familiar with Africa as are European institutions."

Indeed, investors in Canada these days appear much more excited by events unfolding in Latin America and the Canadian north. Argentina Gold has attracted much interest over its Veladero joint venture in Argentina, which has inferred resources of 2.4m ounces of gold and 75m ounces of silver.

Argentina Gold, which holds a 60 per cent stake in Veladero, recently closed a C$5m private placement with Newmont Mining, the US producer.

The opening of Canada's first diamond mine and the potential for other discoveries have also captured the imagination of investors.

"There is still speculative money flowing around out there," said an analyst in Vancouver. "But you really need a project that grabs the market's attention, and there are very few stories right now."

Given the pessimism of the market, it is perhaps surprising the industry has not seen more consolidation, with seniors taking over junior groups that have quality properties but few resources.

Ashanti Goldfields of Ghana has paid $135m for Samax Gold, a Canadian company. The deal will enable the two companies' adjoining properties in the Geita district of Tanzania to be developed into one of Africa's biggest gold mines, producing about 400,000 ounces annually at a cash cost of $180 an ounce.

But Ashanti's deal is the exception rather than the rule. One industry source suggests that the senior companies have been so focused on cost-cutting that they have not been able to take advantage of low junior share prices.

While some mining executives hope the financing crunch could ease within six months, most in the Canadian mining community are not optimistic about the immediate prospects for junior mining groups active in Africa.

They agree that commodities prices must rise and the level of political instability must subside before investors feel comfortable enough to back African ventures. However, not many are willing to guess when that might be.

ZAMBIA by Tony Hawkins in Harare

Anglo deal will dig mines out of crisis – at a price

Procrastination on privatisation will cost President Chiluba and his country dear

With real copper prices at a 60-year low, Zambia's copper-dependent economy is in crisis. But the steep fall in the copper price from 133 cents a lb in 1995 to 70c recently is only part of the story.

The bulk of the damage has been self-inflicted – initially because copper-mining nationalisation in 1972 turned into a disaster, evident in the industry's current state of disrepair, its loss of skills, high production costs and low levels of investment. The exceptions are in some of the recently privatised mines.

The decision to privatise held out the prospect of a rejuvenated industry with literally billions of dollars of new capital and a number of new investors.

But such has been the government's preoccupation with unbundling the mines – reflecting residual hostility towards, or fear of, South Africa's Anglo American Corporation – and with securing higher prices for the mines than potential buyers were willing to pay, especially once copper prices retreated and the industry outlook darkened, that privatisation may not yield all the hoped-for benefits.

Ironically, had privatisation been driven faster – and by different people – many more of the grand aims of the original programme might have been met.

At one stage, the list of pre-qualified potential buyers read like a roll-call of leading mining multinationals. Anglo American was there, of course, along with South Africa's Gencor and Anglovaal; Noranda and Falconbridge from Canada, BHP and WMC from Australia and Phelps Dodge of the US, along with Britain's Commonwealth Development Corporation as part of the Kafue Consortium bidding for Zambia's two leading producers, Nchanga and Nkana.

Over time, as Zambian negotiators dragged their heels and buyers began to have second thoughts over the depth of President Frederic Chiluba's commitment to a liberalised, market-driven economy, so the list shortened.

One by one the big names dropped out, culminating in this year's collapse of the Kafue Consortium bid (Avmin, Phelps Dodge, Noranda and CDC) for Nchanga and Nkana mines – the Copperbelt's two main producers, currently accounting for more than half of total production.

Ironically, the strategy that would have reduced Anglo American's stake in the Copperbelt might now result in Anglo having control of Nchanga, Nkana, the Chingola Ore Refractory and Nampundwe mine as well as the planned $900m Konkola Deep mine to be developed from 2000 onwards.

Not only that, but if current negotiations between Anglo and the government succeed, Anglo will take over the mines next March.

But that will only be after Mr Chiluba's government, through ZCCM, has picked up all the political pain of substantial retrenchments, along with the huge embarrassment of almost certainly accepting a much less favourable deal than was on offer from Kafue Consortium a year ago.

That package was valued at about $700m a year ago, but Anglo is reportedly likely to pay very little for the mines, although it will commit itself to investing $330m in 1999 to keep the mines afloat.

Anglo would also relinquish its rights to Mufulira mine smelter and refinery which would be taken over by London-based Reunion, reportedly for $17m.

If all goes to plan – on a number of occasions over the past two years, politics intervened when agreements seemed to have been sewn up – these deals would close the long-running copper privatisation saga.

Chiluba: buyers had doubts about the depth of his commitment to a liberalised, market-driven economy AP

In the process though, Zambia would have secured less for the mines than it would have done had it moved more decisively and the state-owned company that will take over Zambia Consolidated Copper Mines' assets and liabilities will hold a debt of more than $500m, which the government hopes the World Bank will finance.

On the positive side, the way will be open for the revamping of the copper industry. Output has more than halved since its heyday of the 1970s when output exceeded 700,000 tonnes, to an estimated 290,000 tonnes this year.

Massive investment will be needed, not just by Anglo but by all the other, mainly mining juniors, to stabilise production.

What remains of Zambia's manufacturing base on the Copperbelt, which has been starved of orders and, even when it supplies goods and services, of payments by the cash-strapped parastatal, ZCCM, will come back to life.

A determined effort will be made to turn round a situation where the mines are currently losing between $1m and $2m daily.

Accordingly, privatisation will not be a quick fix, especially with the copper industry internationally in the doldrums and likely to remain so for at least another year. Copper exports – projected at $530m this year, 40 per cent down on 1995 – are unlikely to recover significantly until 2000.

The mining industry's share of gross domestic product has halved in the past few years, employment will fall substantially from more than 60,000 in the early 1990s to about 35,000 as redundancies take effect.

Restructuring and attracting new investors and skills will be made no easier by regional geopolitical tensions – the civil war next door in the Democratic Republic of Congo and the fears of resumed fighting in neighbouring Angola.

Management will have to manage much more than the mines, including high inflation, a weak currency, a run-down infrastructure, a demoralised workforce, a serious Aids crisis, and a severe shortage of skills. It will necessitate bringing in expatriates with all the potential tensions that involves.

Rich pickings there may be in the medium-term for Zambia's intrepid new – and in Anglo's case – old investors. But they will need strong nerves and deep pockets to survive the bumpy times that lie ahead.

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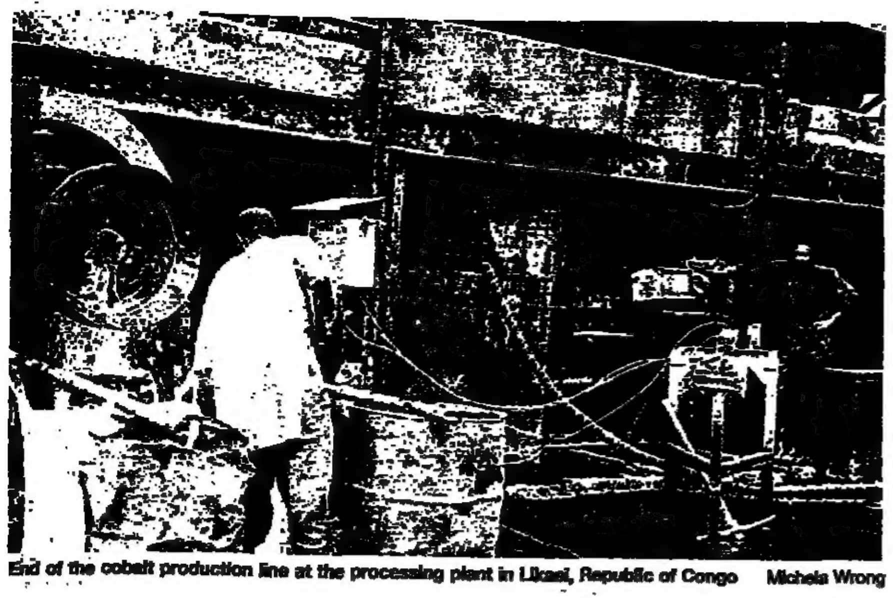


End of the cobalt production line at the processing plant in Likasi, Republic of Congo Michela Wrong

DEMOCRATIC REPUBLIC OF CONGO by Mark Turner in Nairobi

Rebellion casts shadow over nation's riches

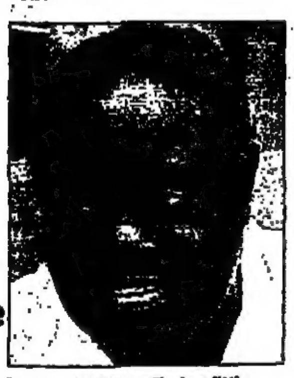
In spite of a growing list of discontented investors, companies believe the rewards justify the risks

The Democratic Republic of Congo's vast natural resources are once again at the centre of a spiralling web of political and economic intrigue as the country's beleaguered President Laurent Kabila tries to stop the mineral-rich south falling into the hands of the country's advancing eastern rebellion.

As Rwandan- and Ugandan-backed rebels draw ever closer to the country's copper- and diamond-rich south, investors faced with the prospect of a second change of regime in as many years are in a state of profound uncertainty.

An increasingly autocratic and unpredictable Mr Kabila is offering little solace to companies which need long-term stability and transparency in order to operate effectively, especially given his political vulnerability.

"The mining companies are growing less than certain that Mr Kabila will be in charge a year from now," says John Clemmow of Investec Securities in London.



Laurent Kabila: offering little solace to companies which need long-term stability

On the other side of the coin, once-bitten investors are also shy of throwing in their lot with a rebellion that few companies trust, despite its promises to end Kabila-style corruption.

"We are being very careful to deal through the approved authorities and recognised channels," says Glenn Finnegan, of Anglo American, which recently teamed up with America Mineral Fields to develop the Kolwezi copper-cobalt tailings project.

"In the event that there is a change of government, party or leadership, one has to be able to substantiate one's claims. The only way to do that is to have dealt in an absolutely straight manner."

Adding to the confusion, state mining company Gecamines is reputed to have made a spate of shady deals with Zimbabwean businessmen, widely seen as a pay-off by a desperate Mr Kabila in return for Zimbabwe's support against the rebellion.

Speculation was increased with the recent appointment of Billy Rautenbach, a Zimbabwean, as Gecamines' chairman, although he denies that the decision, and the award of a mine rehabilitation pact to his company Ridgepointe in September, had anything to do with the war.

"We have been mining up there since October, 1997, and we have had good successes with our operation. I was asked if I would like to assist in the Gecamines operation. That's really how it happened," said Mr Rautenbach.

It is all a far cry from the euphoria of just one year ago after Mr Kabila swept Mobutu Sese Seko, the Zairean dictator, from power and promised a much-wanted end to the country's rampant corruption.

Shortly after the takeover, Kambale Mututulo, Mr Kabila's minister for mines, called for a "massive injection of investment" and started talks with foreign companies.

Among the enthusiastic beneficiaries was Banro Resources, a Canadian gold prospecting company which, through Congolese subsidiary Sakima, attained the title to more than 10,000 sq km in the east of the country and predicted it would establish two mines with an annual production of more than 300,000 ounces.

This July, however, the Congo government dissolved Sakima and handed over the titles to a Congolese group, sending shockwaves throughout the mining community – and causing Banro's share price to fall by 80 per cent.

The Kolwezi copper-cobalt tailings project was also the cause of controversy last year when Mr Kabila took away America Mineral Fields' sole right to the project, granted under Mr Mobutu's tenure, and gave half to Anglo American. The resultant rancour was only ended this year when the two companies agreed on a 50-50 joint venture.

Adding to the list of discontented investors, a decision by Mr Kabila to grant Russell Resources gold mining concessions in the north-east pitched him into conflict with Ghana's Ashanti Goldfields, which said it had a prior claim.

Nonetheless, the enormous potential offered by Congo remains a mouthwatering prize, with many long-established mining companies still active in the region.

In its heyday, Congo was the world's sixth-biggest copper producer, with 500,000 tonnes a year, and a huge cobalt producer with an annual output of 40,000 tonnes. Although the mines are now running at less than 10 per cent of capacity, hopes remain that with well-directed investment they could regain their former glory.

"Everyone knows the possibilities in the Congo are huge," says Paul de Backer, of Union Minière, which together with Gecamines and Forrest runs a small copper joint venture at Kasomok and has a 20 per cent stake in the Miba diamond mine at Mbuji-Mayi. "All we say is that to attract more investment we need a more stable situation."

Even now, Anglo American and America Mineral Fields say they are on the point of announcing an agreement on Kolwezi tailings, after which they will begin a feasibility study.

Kolwezi Group West, a huge consortium with Anglo American and China Non-ferrous Metals as lead partners, is also still in talks with the government, while South Africa's Iscor recently announced it had a green light to rehabilitate the Kamoto copper-cobalt mine.

"It is planned to build annual production up to at least 2m tons within three to four years, to yield approximately 70,000 tons of copper and 5,000 tons of cobalt annually," the company said last month.

Tenke Fungurume's large-scale operation 175km north of the southern capital Lubumbashi, rated as the country's "star project" by London's *Mining Journal*, Anvil Mining's $33m copper-silver project in Dikulushi and International Panorama Resources' $270m Kakanda copper-cobalt project are all further examples of companies which judge that the huge rewards justify the considerable risk.

Nevertheless, it is notable that hardly any are willing to go too far into details about their dealings with the Kabila government, and quickly play down rumours of large pay-offs.

"You understand our situation – I can't really say very much," said one reluctant commentator.

SOUTH AFRICAN MINERAL RIGHTS by Victor Mallet in Johannesburg

Mining groups must 'use it or lose it'

Plans to encourage development of resources may take a long time to implement

South Africa's big mining companies, worried by weak commodity prices on world markets, must now tackle a new and sensitive problem at home.

The government plans to transfer mineral rights from the private sector to the state – applying a "use it or lose it" rule to promote development of mineral resources.

The outlook is not as bad for the mining groups as it might have been. Before the African National Congress came to power in 1994, officials often spoke of the need to nationalise or dismember the capitalist mining houses which had profited from decades of white minority rule and apartheid legislation.

Today, the ANC leadership has embraced free market orthodoxy and accepted the importance of a strong private sector, especially in an industry so vital to the South African economy.

According to the Chamber of Mines, primary mineral exports accounted for more than 37 per cent of the country's merchandise exports in 1997.

Mines employ more than 500,000 people – about a tenth of the non-agricultural workforce – and last year contributed 7.8 per cent of gross domestic product, rising to 15 per cent if indirect multiplier effects are included.

The government insists it does not want to disrupt the mining industry, but it is also determined to vest mineral rights in the state so that black-owned companies – and enterprising foreign investors – can be given a chance to exploit South Africa's plentiful minerals.

At present about two-thirds of mineral rights are privately owned, and one third belongs to the state.

Penuell Maduna, minerals and energy minister, last month anticipated protests from mining companies that their ownership of land and the mineral rights beneath it is protected by the country's new constitution. He accepts that these rights are constitutionally protected.

But he says: "The historical exclusion of the black majority from land ownership automatically translates into the harsh reality that the two-thirds of private ownership of mineral rights where exploration and mining are taking place, as is the situation today, rests mainly in the hands of the white minority – with some exceptions, of course, with regard to tribal land.

"This is politically, socially and economically unacceptable to us as a government."

Mr Maduna, speaking at the launch of the government's consultative policy document on mining, says the government will introduce legislation some time after the general election in the middle of next year.

South African mining company executives are reacting – in public, at least – with extreme caution as they embark on months of delicate negotiations with the government.

The Chamber of Mines has accepted that minerals are a "national asset" belonging to "all the people of South Africa". But the companies are anxious about the mining regime that will emerge and privately express concern about what the new rules will be and how they will be implemented.

Deep gold mines, which require billions of rands of investment to develop, are thought to be least at risk from the proposed new policy.

But other mineral reserves, such as scattered deposits of shallow coal, could more easily be transferred to small, black-owned mining companies with little capital.

Mining companies argue that they need absolute security of tenure to make long-term investment decisions that will be profitable for them and for South Africa. Sometimes mineral assets must be held unused for years, even decades, until efficient processing technology is developed or the market price of the end-product favours exploitation.

Mr Maduna and the government have gone out of their way to reassure the mining industry that they have no intention of nationalising mines, although they will not give up their aim of opening up South Africa's abundant but tightly held mineral resources to more foreign investors and black "empowerment" groups.

"While we want to prevent hoarding of mineral rights and sterilisation of mineral resources, there must be no doubt that security of tenure will be guaranteed," Mr Maduna says.

"We do not want the industry to operate under a cloud of uncertainty. They must know that current operations and bona fide intended operations will be allowed to continue and will not be tampered with by government."

Although details of the government's intentions are still vague, it says it will introduce transitional arrangements before giving the state full control of mineral assets.

Mining companies will be able to license existing and intended operations, but the licences will be for specified periods and include "annual minimum work and investment requirements" to discourage unproductive retention of rights.

Perhaps the best news for the mining industry is that it could take two decades for the state to gain full ownership of the country's mineral rights.

"We need a clear 20-year period to steer this whole big elephant in the right direction," Mr Maduna said.

PROFILE
GOLD FIELDS

Yielding better profit margins

The world's second-biggest gold producer is reaping the dividends of a massive rationalisation exercise

Gold Fields movers and shakers: Tom Dale, managing director (left), and Chris Thompson, chairman

Gold Fields Ltd, the new South African mining company that brings together the gold interests of Gencor and the moribund Gold Fields of South Africa, is already enjoying the benefits of the radical restructuring that has shaken up the country's gold industry after decades of complacency and low productivity.

After South African rival Anglogold (which has also been completely reshaped), Gold Fields is the world's second-biggest gold producer. By 1997, its mines, like those of other high-cost South African producers, were faced with disappearing profit margins following a decline in real terms in the price of gold.

"Clearly, the thing was going bust," was the characteristically brutal assessment of Tom Dale, managing director, when he commented recently on the fact that Gold Fields' first-quarter operating costs this year – before capital expenditure – were $296 an ounce.

Since then, costs have fallen dramatically, reflecting not just the weakening of the rand against the dollar but also a very rapid improvement in performance because of the rationalisation programme introduced by the new management.

By the end of the third quarter, operating costs were just over $200 an ounce, and for the three "core" mines the figure was below $200. Headline earnings – net earnings excluding exceptional items – rose five-fold between the June and September quarters to R251.7m.

South Africa's new generation of gold company managers can barely disguise their scorn for their old-fashioned predecessors. Not only were the previous bosses steeped in the rigid traditions of apartheid, they also treated mining as a technical operation for moving rock rather than as a business that needed to make money for shareholders.

All that is changing fast – at Gold Fields, Anglogold and the smaller operators in the industry.

For Gold Fields, the reforms fall into four main categories: slimming down the head office, restructuring assets, improving operations, and pursuing international ambitions.

Now that the individual mines are no longer part of complicated conglomerates with a wide spread of interests, the need for head office staff is greatly reduced. Mr Dale says the complement of 700 people inherited at the beginning of this year has been whittled down to 80. A head office that used to cost R250m a year now costs R50m.

He also reckons that the number of reporting levels from the lowest mineworker to the managing director has been cut from 15 to five.

Central overheads have been cut too, from R300m to R180m, even though the training budget has been increased.

As for assets, Gold Fields has decided – like Anglogold – to focus on mines with low costs and substantial reserves, while disposing of those that cannot make the grade for the new company. The company's core mining operations are Kloof, Beatrix and Driefontein (which is to be held in a joint venture with Anglogold).

"That's the kind of asset base we want," says Mr Dale. "We're not interested in marginal mines."

But it is underground in the mines themselves that the greatest changes have occurred. In six months, 18,000 workers out of a total of 80,000 have been made redundant. Those that remain, however, are being trained in English and mathematics and given the chance to become fully qualified miners with blasting certificates, a privilege once jealously guarded by white miners.

By the end of 1998, Gold Fields will have turned out its 1,000th qualified miner under its new training system. Instead of one white man trying to supervise 80 illiterate and innumerate people over 100 metres of face underground, black miners are managing teams of a dozen over a quarter of the distance, something that Mr Dale believes will improve the company's safety record.

The frequency of blasting – a measure of productivity – has improved from a dismal eight times a month per face to as much as 24 times a month.

"We've got black miners who've been through our system who blast more than 20 times a month," says Mr Dale. "We're taking our own people and we're equipping them to compete in a meritocracy in GFL. In three to five years, a lot of these people will be in the middle management structure."

'The risk of political interference is much higher in the US than it is in South Africa'

While Mr Dale concentrates on turning around operations in South Africa, Chris Thompson, the new chairman, intends to use his experience in north American mining finance to expend the group's foreign operations and improve its rating with international investors.

Mr Thompson, who plans to develop a detailed international strategy by the end of February, is considering a primary stock exchange listing in London or elsewhere to help the company raise capital, the path recently taken by Anglo American, Anglogold's parent. But he points to Gold Fields' lack of debt and substantial cash flow as another aid to expansion. "We're developing a war chest as a result," he says.

In the meantime, he will attempt to persuade investors that it is illogical to value north American gold mining companies three times as highly as their South African rivals, something that he says comes from the investment community's "folklore myth" about political risk.

The risk of political interference, whether from environmental activists or government, is much higher in the US than it is in South Africa, he says.

At the height of the Monica Lewinsky scandal, Mr Thompson compared the forthcoming handover of the South African presidency from Nelson Mandela to deputy president Thabo Mbeki with the possible transfer of power from an impeachable president Clinton to Al Gore, his vice-president – something he said was "every miner's worst nightmare" because of Mr Gore's enthusiasm for environmental causes.

Mr Thompson and Mr Dale want Gold Fields to be judged fairly against its international rivals, although they acknowledge that this will probably mean a downgrading of north American gold mining companies as well as an upgrading of South African ones.

Like the South African industry as a whole, the mines that make up Gold Fields have been through a rough patch. But nowadays, as the restructuring begins to make itself felt, they are looking more competitive than they have for decades. "This industry is getting back onto its feet," says Mr Dale.

Victor Mallet